The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL *is published monthly, on the first day of each month, at an Annual Subscription of* 12*s.* 6*d., which includes postage to all parts of the world. The price of a single copy is* 1*s.* 3*d., postage extra.*

*Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.*2. *Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."*

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Contents.

Professional Notes.

THE proceedings at the annual dinner of the Manchester and District Society of Incorporated Accountants, reported in this issue, were of more than usual interest, as this Society celebrated the 45th anniversary of its foundation in the year 1886. Our congratulations are due to the Society upon its work on behalf of Incorporated Accountants, and in tendering these expressions of goodwill we must not overlook the fact that the Hon. Secretary, Mr. Arthur E. Piggott, has sustained the burden of his office for the whole period without a break. The President of the Parent Society, Mr. Henry Morgan, in the course of his speech at the dinner, paid a tribute to Manchester Incorporated Accountants who, during its history, had rendered such signal service to the Society. He particularly mentioned the names of Mr. Frederic Walmsley, the senior Past President, Mr. Arthur E. Piggott, and the late Mr. Harry Lloyd Price.

It was not surprising, Mr. Morgan said, that Manchester should be a stronghold of the accountancy profession, since it was the centre of the Lancashire cotton industry which for generations past had had a preponderating share in the export trade of Great Britain, and once had apparently less to fear from foreign competition than any other industry. Referring to the existing depression, he said it was a source of general satisfaction all over the country that the dispute in the cotton industry had been determined and that the wise counsels of Lord Derby had prevailed. He believed that all parties in the industry would now confer together in an atmosphere of goodwill to consider the best ways and means in regard to technique, organisation and finance to meet and improve the present situation.

The Chancellor of the Exchequer received on Tuesday, February 17th, an important and representative deputation from the Association of British Chambers of Commerce, the members of which discussed with him matters relating to the forthcoming Budget and also the serious position in which the heavy industries of the country find themselves. The speakers on behalf of the Association were Sir Walter Raine, President; Sir Alexander Gibb, Chairman of the Council of the London Chamber; Mr. H. Lakin-Smith, F.C.A. (Birmingham), Chairman of the Association's Finance and Taxation Committee; and Sir William Clare Lees (Manchester), Deputy President of the Association. As Mr. Lakin-Smith's observations more particularly relate to matters which fall within the practice of the profession, we are reporting them in another column. Sir James Martin, F.S.A.A., Vice-President of the London Chamber and of the Associated Chambers, was a member of the deputation.

Sir John Simon, who was the guest of honour at a dinner of the American Chamber of

Commerce in London, in the course of an address said it seemed to him that Great Britain was entitled to say of its banking system that it had assisted to maintain what was, after all, the very foundation of British commercial and financial reputation throughout the world. We were in the War from beginning to end, a little country undertaking the most stupendous burdens, but none the less entitled to pride ourselves on the fact that we had succeeded in preserving the traditions of London as one of the great financial centres of the world.

The Secretary of State for the Colonies has appointed a Commission, consisting of Mr. W. Gaskell, C.I.E., I.C.S., and Mr. D. S. Macgregor, C.B.E., F.S.A.A., to proceed to British Guiana to examine and report on the financial position of the Colony, and to advise on specific measures, with a view to reducing expenditure and increasing revenue. Mr. Macgregor entered the Colonial Service in 1895 and was elected a Fellow of the Society in 1900. He served in the Leeward Islands, Trinidad (whither he was sent on a special mission to adjust the Colony's accounts), British Honduras, Mauritius, Ceylon, and Nigeria where he was treasurer. He retired in 1928 after a short period of service in Baghdad.

The 40th Annual Report of the Incorporated Accountants' Students' Society of London must be pleasant reading for some of its founders who are happily still with us. During the past year 383 new members were elected. At December 31st, 1930, there were 1,294 members on the roll, consisting of 168 honorary members in practice, 150 honorary members not in practice, and 976 ordinary members. The Committee regret to note that there is still a tendency for student members upon qualifying to cease their support of the Students' Society. What all of them should do is to join the ranks of honorary members, whether practising or not practising. We can confidently state that this is a paying proposition.

The first address delivered before the Incorporated Accountants' London and District Society on February 24th was given by Dr. W. H. Coates (an Examiner of the Society) on "Some Aspects of the Currency Question." The address and discussion thereon will be published in our next issue. Other aspects of the monetary and trade situation will be before the Incorporated Accountants' Students' Society of London during the forthcoming session. Mr. Rea Price, City Editor of the *News-Chronicle*, will ask the Students' Society to consider some "Post Slump Problems," and Mr. A. A. Garrett will read a paper on "Money, Prices, and Trade." We believe the Committees of these Societies have exercised a wise choice in bringing these important subjects to the notice of the accountancy profession, and a wider public, by whom the views submitted will be considered.

Mr. Justice Rowlatt had before him recently in the case of *Commissioners of Inland Revenue* v. *Sir H. C. Holder and Another*, an interesting question with regard to accumulated interest which became payable to a bank under a guarantee, and the right of the guarantors to claim repayment of Income Tax on such interest which formed part of their total liability to the bank when the guarantee became enforceable. On behalf of the Crown it was contended that the whole of the payment made by the guarantors to the bank was in satisfaction of the debt due under the guarantee, and that no part was interest as such; also that in view of the bank's practice of adding interest each half year to the amount advanced, the interest was in fact paid each half year, and, therefore, formed no part of the amount ultimately payable by the guarantors.

His Lordship refused to accept this contention. The contract of the guarantors, he said, was that they would pay the interest if the debtor company did not, and as the interest had been paid out of profits or gains brought into charge for Income Tax, he could see no reason why the claim should not be allowed. It seemed to him that the guarantors were in just the same position as a principal debtor. He could not accept the argument of the Attorney-General that the interest when paid off had been transformed into principal because it had been debited in the account every year and swelled the balance of the account in the ordinary way. Continuing, he said: "Why should it be treated as capital? There is no reason at all for doing so, except to defeat this application. It is simply arrears of interest when all is said and done. It seems to me that what is interest for one purpose is surely interest for another."

Mr. Justice Maugham, giving decision in the case of *re Vickery*; *Vickery* v. *Stephens*, said that sect. 23 (1) of the Trustee Act, 1925, had revolutionised the position of an executor or trustee with regard to the employment of agents. The defendant in this case had employed a solicitor to take out probate and entrusted him with certain

deeds and securities belonging to the estate. The solicitor absconded and sums amounting to £276 were lost. His Lordship said the question was—Was the trustee liable for loss when not guilty of wilful default? The term "wilful default," he said, had been considered by the Court of Appeal in the case of the *City Equitable Fire Insurance Company*, and was limited to recklessness or to conscious doing or omission which was a breach of duty. In this case the defendant could only be blamed for an error of judgment and the defalcations of a solicitor employed by him was not a wilful default on his part. The action was accordingly dismissed.

In the case of *Tankerton Grand Pavilion* v. *Dawson*, an attempt was made to cancel the uncalled liability of a director in respect of shares allotted to him under an underwriting contract, by means of a resolution of his co-directors which was subsequently confirmed by a special resolution of the shareholders. The Court held that this was not effective, as it resulted in a reduction of capital, which, by sect. 55 of the Companies Act, 1929, required the sanction of the Court. Had such an application been made, the likelihood is that in the circumstances it would not have been granted.

In delivering the Gilbart Lectures on Banking, Mr. Topham, K.C., referred to the position of banks who have constructive notice of trusts, and pointed out that the effect of such notice was that the banker might become a constructive trustee. He said, "As soon as bankers have the slightest indication that there is a trust, or some kind of fiduciary relationship on the part of the person in whose name the account stands, they should do their best to find out exactly what is the position." Limited companies would be affected in the same way apart from the fact that the statute law places them in a privileged position so that they are not required to take cognisance of a trust in relation to a shareholder.

Mr. Topham also referred to an old rule which had been re-enacted in the Administration of Estates Act, 1925, the effect of which is that when the last surviving trustee dies his executor takes his place. The point is that this does not apply in the case of an administrator. "Supposing," said Mr. Topham, "that the last surviving trustee dies and appoints an executor, and that executor dies and appoints an executor, there is no difficulty there, because the executor of an executor is the executor of the deceased. But as soon as you break the chain of executorship, the rule does not apply. The administrator of an executor is not the personal representative of the deceased, nor is the executor of an administrator." This is a point which should be carefully borne in mind by company secretaries and registrars.

Last month Miss Rathbone introduced into the House of Commons a Bill designed to alter materially the position with regard to the rights of a testator domiciled in England or Wales to leave his widow without substantial support if he is possessed of adequate means. Miss Rathbone said that in his lifetime a man was compelled to make provision for his wife and children, and she did not see why his death should end those obligations. The Bill provides that the surviving spouse shall be entitled to one-half of the value of the personal chattels; a grant out of capital consisting of £1,000 or half the value of the estate whichever may be the less; and the income of half the remaining estate if there are any surviving children, or one third if there are no children. The Bill met with general support from representatives of all parties in the House, and the second reading was carried by a large majority. Substantially the effect of the Bill is to bring the testamentary law of this country into line with that which has been in force in Scotland for many years.

Sir Leslie Scott, K.C., speaking at the dinner of the City of London Solicitors' Company, referred to the tendency to give judicial authority to Government Departments, and questioned whether this was not due to the same cause which had led to so much unprofessional arbitration in the City, and the tendency to settle disputes by any means rather than to bring them before the Courts. In order to avoid delay in the Courts, he said that it would be better for additional Judges to be employed rather than that suitors should not know when their cases were coming on, and he thought it would be well for both branches of the legal profession to consider also how to meet the real needs of modern commerce with regard to the cost of litigation. They should take stock of their machinery, and see whether they could not afford the commercial public a simpler method of resort to the Courts without a prospect of appeal.

In a memorandum submitted by the Association of British Chambers of Commerce for the consideration of the Royal Commission on Unemployment Insurance, approval is expressed of

the recommendations of the Blanesburgh Committee: (1) That unemployment insurance benefit should be definitely less in amount than the general labourer's rate of wages in order to avoid the temptation to prefer benefit to work, and not to interfere unduly with the mobility of labour in this country or to deter from migration those who would be benefited by a life overseas; (2) that extended benefit should be abolished; (3) that benefits to young men and young women between the ages of 18 to 21 should be reduced; (4) that the insurance scheme should be placed on an actuarial basis; and (5) that claimants for unemployment benefit must have paid 30 contributions in the last two years, and be genuinely seeking work.

The Association further expressed the view that one of the first essentials of the scheme, in order to make it solvent and self-supporting, was the restoration of the requirement that in order to qualify for benefit the applicant must be genuinely seeking work. They also pointed out that in 1921 the amount of benefit received by a man with a wife and two children was £1 2s. a week; in 1924 it became £1 7s., and is now £1 10s., although during the same period the cost of living index figure has fallen. In January, 1921, the average percentage increase in the cost of living was 165; in January, 1924, it was 77, and on January 1st, 1931, it had fallen to 53.

The depreciation of the Australian pound is having its effect on the balance of Australian commercial payments. The discount, which now amounts to about 30 per cent., means that an Australian pound is worth about 14s., in other words, Australian prices have been reduced by 30 per cent. in terms of English pounds and other gold currencies. The effect has been to stimulate the export of Australian produce, which can thus be bought at prices which compare favourably with similar goods produced in other countries. Conversely, the depreciated value of the Australian pound has had the opposite effect on imports into that country, the volume of which has accordingly fallen. As a consequence, there has been a distinct improvement in the balance of Australian commercial payments, the last six months showing a favourable trade balance in place of the large adverse balance which was previously experienced.

Mr. S. W. Davey, Incorporated Accountant, Assistant Accountant to the East Suffolk County Council, has been appointed Deputy County Accountant for Warwickshire.

DISCLAIMER OF ONEROUS PROPERTY BY LIQUIDATOR.

THE Companies Act, 1929, sect. 267, provides that where any part of the property of a company which is being wound up consists of land of any tenure burdened with onerous covenants, of shares or stock in companies, of unprofitable contracts, or of any other property that is unsaleable, or not readily saleable, by reason of its binding the possessor thereof to the performance of any onerous act, or to the payment of any sum of money, the liquidator of the company, notwithstanding that he has endeavoured to sell or has taken possession of the property, or exercised any act of ownership in relation thereto, may, with the leave of the Court and subject to the provisions of this section, by writing signed by him, at any time within twelve months after the commencement of the winding up or such extended period as may be allowed by the Court, disclaim the property.

This power is somewhat similar to that conferred on trustees in bankruptcy by the Bankruptcy Act, 1914, sect. 54. Leave of the Court is not generally necessary in the case of a bankruptcy (*vide* Bankruptcy Rules, 1915, Rule 276), but such leave is essential in all cases of disclaimer by a liquidator in a winding up. The period during which the power of disclaimer may be exercised is also different. In bankruptcy this period is twelve months after the first appointment of a trustee, if the property came to the knowledge of the trustee within one month of his appointment, but if it came to his knowledge later, the period is extended to twelve months from the date of such knowledge. The Court has power to extend the time. In winding up, time begins to run from the date of the commencement of the winding up (not from the date of the appointment of the liquidator), the period being similar in length, viz, twelve months. If the property does not come to the knowledge of the liquidator within one month after the commencement of the winding up, the above period will begin to run from the date when the property came to his knowledge.

There is a fundamental difference between the position of a liquidator and that of a trustee in bankruptcy, because the property of a bankrupt, with certain exceptions, vests in the trustee immediately on the debtor becoming bankrupt. A trustee may thus come under personal liability, *e.g.*, he becomes assignee of any lease belonging to the bankrupt, and personally liable

to pay the rent and perform the covenants which run with the land during the time the lease is vested in him. If he brings or defends an action, he is personally liable for costs like any other litigant, and must look to the estate, or to an indemnity from the creditors, for reimbursement. Nothing, however, vests in a liquidator on his appointment, and he is under no similar personal liability under the covenants of a lease to the company, or for the costs of an action brought or defended by him on behalf of the company. If a liquidator obtains an order under sect. 190 of the Companies Act, 1929, vesting in him all or any of the property belonging to the company, he may come under personal liability, and where such an order is made the liquidator will have to give such indemnity as the Court may direct before bringing or defending any action relating to such property. A liquidator should, however, exercise the greatest care in applying for such an order, for there is no provision in sect. 267 for the discharge of any personal liability on his part, whereas by sect. 54 (2) of the Bankruptcy Act, 1914, the disclaimer operates to discharge, as from the date of the disclaimer, the trustee from all personal liability as from the date when the property vested in him. The word "property" is defined by sect. 167 of the Bankruptcy Act, but is not defined in the Companies Act. Sect. 267 of the latter Act, however, appears to include every description of property with reference to which the desirability of disclaimer is likely to arise.

The disclaimer will at once operate to determine the rights, interest and liabilities of the company in respect of the property disclaimed, but will not, except so far as is necessary for the purpose of releasing the company from liability, affect the rights or liabilities of any other person. The disclaimer of a lease was said by Jessel (M.R.), in *ex parte Hart Dyke* (1882), to put an end to the lease, not merely to the term, but to the lease itself. On the one hand it deprived the landlord of the future benefit of all those clauses of the lease which gave him a benefit, and, on the other hand, it deprived the tenant of the future benefit of those clauses which gave him a benefit. The right to disclaim a lease will greatly facilitate the closing of a liquidation.

The question may arise as to whether a liquidator who has "taken possession of the property" does or does not come under a personal liability for rates. A trustee in bankruptcy does, because it is not the rateable hereditament but the occupation of it that attracts liability to pay rates. Occupation is a voluntary act, and disclaimer by a trustee in bankruptcy of the tenancy does not extinguish his liability to pay rates during the period of his occupation. A liquidator, however, unless he had obtained a vesting order under sect. 190, would, it is thought, properly contend that the occupation was not his, but that of the company, and that rates subsequent to the winding up would be ordered to be paid out of the company's assets only if there was a beneficial occupation of the premises (*re Blazer Fire Lighter, Limited* (1895).

A liquidator may lose his right to apply for leave to disclaim, or may be deemed to have adopted a contract, if any person interested in the property applies to him in writing to decide whether he will disclaim or not, and he fails within 28 days after the receipt of the application, or such further time as the Court allows, to notify the applicant that he intends to apply to the Court for leave to disclaim, or in the case of a contract, does not after such application disclaim within that time.

"JUST AND EQUITABLE" WINDING UP.

THE Companies Act, 1929, following similar earlier statutory provisions, enacts (by sect. 168) that a company may be wound up by the Court if the Court is of opinion that it is just and equitable that the company should be wound up. Furthermore, with regard to the winding up of unregistered companies, it is provided by sect. 338 (1) (*d*) that they may be wound up by the Court if the Court is of opinion that it is just and equitable that the company should be wound up. This expression "just and equitable" is, by its very phraseology, necessarily of extremely wide scope. An examination of cases which have turned upon its meaning and limitations is, therefore, of considerable import. Without a knowledge of the trend of judicial decisions based upon it, the meaning of the statutory provision is far from clear.

A particularly illuminating case is *Re Yenidje Tobacco Company, Limited* (1916). There, two tobacco manufacturers had decided to amalgamate their businesses. Accordingly, a private limited company was formed to take over the two businesses, the proprietors becoming the sole directors and shareholders of the company. The Articles of Association provided that disputes or differences between the directors should be referred to arbitration, and the awards thereon should be entered in the minute-book as resolutions of the board. After a time, the directors

found themselves constantly quarrelling, and one point of difference between them alone involved arbitration proceedings extending over eighteen days, and expenditure of well over £1,000. Moreover, the director against whom the umpire had made his award declined to abide by it. He, further, launched an action against his co-director alleging fraud in inducing him to sell his business to the company, and claiming rescission or rectification, with damages. In these circumstances, the co-director petitioned the Court for a winding up order. It was urged by way of opposition to the petition that despite these quarrels between the directors, the company was making large and increasing profits. In granting the order, the Court held that it was "just and equitable" that the company should be wound up, since under the guise of a company the two directors were really carrying on the business as partners, and circumstances which would warrant the Court interfering to dissolve a partnership under the analogous "just and equitable" rule contained in sect. 35 of the Partnership Act, 1890, were adequate to justify the making of a winding up order in a case such as this. The whole basis of the agreement was that the directors would co-operate as reasonable men. Here that basis had been destroyed by the conduct of, at any rate, one of them. No company could be carried on upon the system of constantly referring differences between the directors to expensive arbitration. Further, the Court dismissed the contention that since the section of the Act specifies five grounds for making a winding up order immediately prior to stating the wide ground of circumstances making a winding up "just and equitable," the last-mentioned must be construed as applying only to cases analogous to (*ejusdem generis*) those envisaged under the five preceding heads. Those five are: (*a*) if the company has passed a special resolution for winding up by the Court; (*b*) default in delivery of the statutory report to the Registrar or in holding the statutory meeting; (*c*) failure to commence business within a year of incorporation, or suspension of business for a whole year; (*d*) reduction of number of members below statutory minimum; (*e*) inability of the company to pay its debts. The test, said Lord Justice Warrington, in a case like this is: Has a deadlock been reached in the management of the business of the company?

That question was also answered in the affirmative by the Court in the case of *In re American Pioneer Leather Company, Limited* (1918). There the company comprised three directors, who were the sole shareholders. The Articles of Association provided that if any one of the three directors should at any time desire to withdraw from the company, he should offer his shares to the other two. If the latter declined to purchase his shares, then he was to be free to have the company wound up. Circumstances which that provision was designed to cover had arisen. The Court granted a winding up order because a state of complete deadlock appeared to have been reached, and not because of the Article referred to, for "partners have no power by Articles of Association to determine the time and circumstances under which a private company shall be put an end to." The Court, it will be noted, employed the term "partners" in this connection. Although the Court emphasised that it was not bound by that Article, it declared that its presence in the constitution of the company was a material factor which it would take into consideration in arriving at a decision as to what was "just and equitable" in the circumstances, for it evidenced the intention of the parties themselves when they entered upon their agreement to form the company.

In the case of the *Yenidje Tobacco Company*, the business, as has been stated, was earning large profits. In the case of the *American Pioneer Leather Company* it was in evidence that upon a winding up there would be a large surplus of assets over all liabilities. In neither case was the Court deterred from making the winding up order because of the healthy financial state of the business. Nor was such an attitude unreasonable, since the object of winding up was clearly to prevent the possibility or probability of the continuance of the differences of the directors operating to swallow up the financial resources of the company. The Court looks to the future prospects of the company which must, in due course, be ruined once the harmony which helped to build up the prosperity has vanished. The deciding factor, in a word, is the future, not the past.

The personal idiosyncrasies of the directors are irrelevant unless they affect the company's affairs. The "just and equitable" rule was analysed from this angle by Lord Shaw of Dunfermline in the Privy Council in the case of *Loch* v. *John Blackwood Limited* (1924). In order to found an application for a winding up order under this rule, he said, there must be a justifiable lack of confidence in the conduct and management of the company's affairs, not in the directors' conduct and management of their private affairs; and lack of confidence is not mere dissatisfaction with the policy of the directors approved by a majority vote. Want of confidence is, however,

justified if the directors are lacking in probity in relation to their conduct of the company's business.

Other cases in which the rule has been before the Courts are *Re Clandown Colliery Company* (1915); *Re Bleriot Manufacturing Aircraft Company, Limited* (1916); *Re Stratton's Independence, Limited* (1916).

Incorporated Accountants' London and District Society.

Dr. W. H. Coates on "Some Aspects of the Currency Question."

On February 24th at Incorporated Accountants' Hall the above Society held a largely attended meeting to hear Dr. W. H. Coates deliver an address on "Some Aspects of the Currency Question." Mr. Thomas Keens, F.S.A.A., President of the London and District Society, presided, and in addition to the lecturer was supported on the platform by Mr. Henry Morgan, President of the Society of Incorporated Accountants and Auditors; Mr. Edward Wilshaw, President of the Chartered Institute of Secretaries; Mr. H. D. Henderson, Assistant Secretary, Economic Advisory Council; Dr. O. M. W. Sprague, of the Bank of England; Mr. R. A. Witty, Vice-President, London and District Society; Sir Stephen Killik, President Incorporated Accountants' Students' Society of London; and Sir James Martin.

Dr. Coates' paper was of outstanding importance and merited, as it received, the closest attention of his audience. At its conclusion a discussion took place, in which Mr. H. D. Henderson, Dr. O. M. W. Sprague, and Mr. O. R. Hobson (Editor-in-Chief of the *Financial News*) took part. A cordial vote of thanks was accorded to Dr. Coates on the motion of Mr. Henry Morgan, President of the Society of Incorporated Accountants and Auditors, and a similar compliment was paid to the Chairman on the motion of Mr. W. A. Pearman.

Dr. Coates' paper, together with the discussion thereon, will be printed in full in our next issue.

At the conclusion of the meeting the President, Mr. Thomas Keens, the Vice-President, Mr. R. A. Witty, and the Committee entertained the following guests at dinner:—Dr. W. H. Coates, Mr. Henry Morgan, Mr. Edward Wilshaw, Dr. O. M. W. Sprague, Sir Stephen Killik, Sir James Martin, Mr. O. R. Hobson, Mr. E. D. Kissan, Mr. A. S. Wade, Mr. J. C. Rea Price, Mr. Arthur Collins, Mr. R. T. Warwick, Mr. W. A. Pearman, Lieut.-Colonel W. A. Sparrow, O.B.E., Mr. J. Scott-Moore, Mr. H. J. Burgess, Mr. P. Farnworth, Mr. M. J. Faulks, Mr. F. W. Stephens, Mr. J. E. Blacknell, Mr. J. Stephenson, O.B.E., Mr. W. Norman Bubb, Mr. A. J. H. Shay, Mr. G. Roby Pridie, Mr. H. E. Colesworthy, Mr. J. R. Maskell, Mr. J. C. Fay, Mr. E. E. Edwards, and Mr. A. A. Garrett.

Mr. Richard A. Witty, in proposing the toast of "The Guests," said that the Incorporated Accountants' London District Society had not been formed purely for the domestic purpose of enabling the members to meet each other at social and educational functions, but rather was it their desire and intention to take a definite part in moulding public opinion and in disseminating enlightened views on all matters relating to commerce and finance. Incorporated Accountants would combat the spirit of pessimism, the decrying of our own country, which was all too prevalent in certain quarters at the present time. They all realised that there were forces at work to-day and factors to be taken into account which were non-existent in previous times of difficulty through which the country had passed. It was particularly in relation to these matters that the Incorporated Accountants' London District Society desired to co-operate with those who had proved themselves leaders of thought in the different branches of financial science. They desired, under the ægis of the parent body, to assist in making the Incorporated Accountants' Hall a centre of advanced thought and education on all matters relating to commerce and a forum for the exchange of views by those who were competent to guide the financial policy of the nation.

Dr. W. H. Coates and Mr. Edward Wilshaw responded.

Sir Stephen Killik proposed the health of the Chairman, which was acknowledged by Mr. Thomas Keens.

THE FINANCE ACTS: OBSOLESCENCE AND SUGGESTED AMENDMENTS.

At the Deputation of the Association of British Chambers of Commerce to the Chancellor of the Exchequer on February 17th, Mr. H. Lakin-Smith, F.C.A., Chairman of the Association's Finance and Taxation Committee, said he would remind the Chancellor that on the occasion of the Deputation in 1930 he brought before the Chancellor the earnest wish of the Association that their Report on "Income Tax—Allowances and Reliefs," in which the Association asked that more equitable and generous treatment should be accorded to wasting assets, obsolescence of plant and depreciation of buildings, might receive consideration; and that allowance should be made as an expense of all expenditure reasonably incurred with the principal object of carrying on a successful business. The Association had continued to carry on negotiations with the Chairman and Board of Inland Revenue, who had and were giving much time and thought to the subject, and had been most attentive to the representations and views that had been put before them by the Association. The Association was still anxious for the amendment of the Finance Acts which it proposed with regard to obsolescence and for the other reforms suggested; but realising that this year there was not likely to be a Budget surplus out of which the cost of these reforms could be met, the Association was brought to the view that without in any way lessening the desire for these reforms, it was best not to press for these amendments of the law further this year, but to continue negotiations with the Board of Inland Revenue with a view to clearing up the position as to "obsolescence" and as to how far existing hardships can be met

under the existing law. The Chairman of the Board of Inland Revenue had undertaken to give full consideration to the Association's views. In this way it is hopeful that during the coming year the position may be clarified, and then the Association will be in a better position to ask for amending legislation next year.

He also desired, on behalf of the Association, to urge once again that the Finance Bill should be published as soon as possible after the introduction of the Budget, so that time might be given for the clauses to be considered by the public before they are adopted in the House of Commons. The Chancellor would no doubt remember that last year the Budget statement was made on April 14th, while the Finance Bill was not ordered to be printed until May 6th, and was not actually published until May 14th. Notwithstanding this, however, the second reading was on May 20th. This left too little time for consideration of the effect of these changes.

Mr. Lakin-Smith asked the Chancellor of the Exchequer that when the Report of the Committee on the Codification of Income Tax Laws was received, this might be published in a form so that it could be reviewed by the Association and other business associations before the recommendations were put into the form of a Bill and introduced into the House of Commons. He added that the Committee was appointed some years ago, and the time should now be near when the report was to be published. He also remarked that business men were very anxious to have an opportunity of considering this in good time, because, as the Committee consists only of legal gentlemen, the Association and other bodies felt it all the more important that they should have an opportunity of considering the proposals and if necessary making recommendations with regard to them.

Another point that he brought before the Chancellor was the fact that the costs of appeals against Income Tax assessments were disallowed as a charge in the computation for Income Tax, even though the Inland Revenue might not win on appeal. This seemed to the Association to be a great hardship, and as the amounts were not usually very large, the cost of making a concession would be of no moment to the Inland Revenue. He trusted, therefore, that the Chancellor would see his way to agree to concede this point.

Mr. Lakin-Smith also brought before the Chancellor the question of the interpretation placed upon sect. 33 of the Finance Act, 1926, by the Inland Revenue. This section is undoubtedly a great gain to taxpayers, inasmuch as losses are able to be carried forward against future profits, but the section says in effect that any portion of the loss in respect of which relief has not been given in other ways shall be carried forward and, as far as may be, deducted from or set off against the amounts of profits or gains on which the taxpayer is assessed under Schedule D for the following six years of assessments. The hardship that they desired to bring before him was the fact that this is so construed that in effect the amount of loss is only able to be carried forward for five years. For example, if there was an unexhausted balance of loss for the year to Dec. 31st, 1930, this would be available for carry forward for six years up to and including the year 1936-37 and not 1937-38, with the result that, as the 1931-32 assessment based on the previous year's trading result must show a loss, there are only five years against which this loss can be carried forward. He said that he felt that there was no doubt that, in the view of the public, the term "six years" meant six years from which such a deduction could be made, whereas under the present arrangement it is only possible to make a deduction for five years.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

DERWICK, HAROLD, 12, East Parade, Leeds, Practising Accountant.

GADSBY, JAMES (Saml. Edward Short & Co.), 17, Gluman Gate, Chesterfield, Practising Accountant.

KEENS, PHILIP FRANCIS (Keens, Shay, Keens & Co.), 11, George Street West, Luton, Beds, Practising Accountant.

MORRIS, SIDNEY THOMAS (William Morris & Sons), Lombard House, 16 and 17, Little Britain, London, E.C.1, Practising Accountant.

PETRIE, JOHN MCROBBIE (J. H. Lord & Co.), Bank Buildings, Bacup, Practising Accountant.

PICKUP, ARTHUR FERRY (J. H. Lord & Co.), Bank Buildings, Bacup, Practising Accountant.

ROY, ABANI MOHAN, M.A., B.Com., 122A, South Portland Street, Glasgow, Practising Accountant.

SINCLAIR, GEORGE NEIL (Garner, Pugh & Sinclair), Prudential Chambers, Oswestry, Practising Accountant.

SIRKIN, DAVID (Baker & Co.), 42, Silver Street, Leicester, Practising Accountant.

WARRINGTON, WILLIAM ERNEST (Baker & Co.), Castilian Chambers, Castilian Street, Northampton, Practising Accountant.

WYER, EDWARD RUSSELL (Wyer, Lewis & Co.), 10, The Traverse, Bury St. Edmunds, Practising Accountant.

FELLOW.

GLOVER, EVELYN (Evelyn Glover & Pollock), 8, Bureau Lane, Pretoria, S. Africa, Practising Accountant.

ASSOCIATES.

ALLEN, ERIC GEORGE, Clerk to Clothier, Watkins & Riddell, 7, The Square, Shrewsbury.

ANNISS, FRANK, Clerk to Maurice Thompson, 30, Mark Lane, London, E.C.3.

ATKINSON, WILLIAM WILKINSON, Clerk to Thomas Rodger, Percy Chambers, 29, Grainger Street West, Newcastle-on-Tyne.

BEAL, EDWARD, Clerk to Porter, Matthews & Marsden, 43, Preston New Road, Blackburn.

BINLESS, WILLIAM, Clerk to R. O. Griffith, 44, Cannon Street, Preston.

BLYTH, JOHN SAMUEL, Clerk to Hoale, Smith & Field, 4, Broad Street Place, London, E.C.2.

BROWN, JOHN HERBERT, Clerk to F. S. Rowland, 90, Pilgrim Street, Newcastle-on-Tyne.

BUTCHART, THOMAS, Clerk to Wm. Home, Cook & Co., 42, North Castle Street, Edinburgh.

CAULFIELD, JAMES AUGUSTINE, Clerk to Kevans & Son, 1 and 2, Westmoreland Street, Dublin.

COOKE, JOHN WILFRID, City Treasurer's Department, Guildhall, Portsmouth.

CORNFORD, MAURICE KENTON, Clerk to Singleton, Fabian & Co., 8, Staple Inn, Holborn, London, W.C.1.

COWIE, MERVYN HUGH, Clerk to Dunn, Hornby & Co., P.O. Box 312, Nairobi, Kenya Colony.

DALBY, WILLIAM SHIELD, Clerk to Newby, Dove & Rhodes, 10, Grey Friars, Leicester.

DALEY, JAMES MAURICE, Clerk to Broomfield & Alexander, 81, High Street, Newport, Mon.

DAVIES, HARRY NAYLOR, Clerk to James Todd, Adams & Wilcock, 30-31, Old Bank Buildings, Chester.

DRAY, WILFRED GEORGE, Clerk to Temple, Gothard & Co., 7-8, Norfolk Street, Strand, London, W.C.2.

DUNKERLEY, NORMAN, Treasurer, Whitby Urban District Council, Council Offices, Flowergate, Whitby.

EVANS, STANLEY, Secretary and Accountant, Darwins Limited, Sheffield, formerly Clerk to Peat, Marwick, Mitchell & Co., Sheffield.

FERARRIO, WILLIAM, Clerk to Greenhalgh, Sharp & Co., 30, Brown Street, Manchester.

FINK, HARRY, 44, Tredegar Square, London, E.3, formerly Clerk to H. Rainsbury & Co., 65-66, Basinghall Street, London, E.C.2.

FLAXMAN, ERNEST WILLIAM, Clerk to Gibson, Harris, Prince & Co., Palmerston House, Old Broad Street, London, E.C.2.

FLEMING, NORMAN CARR RICHMOND, Clerk to Charles E. Dolby & Son, May Buildings, 51, North John Street, Liverpool.

FOOT, CHARLES RANFORD, Clerk to H. J. E. Batchelor, 44, Above Bar, Southampton.

FORSTER, GEORGE HENRY, County Accountant's Department, County Offices, Derby.

FULLER, IDA ELIZABETH, Public Trustee Office, Kingsway, London, W.C.2.

GIBB, JOHN CECIL, Clerk to R. T. Dunlop, 45, Renfield Street, Glasgow.

GIBBS, LESLIE WALTER, Clerk to Croydon & King, 7, Grosvenor Gardens, London, S.W.1.

GRAHAM, BURTON HOOD, Clerk to W. T. Walton & Son, 3, Scarbro' Street, West Hartlepool.

HALL, ERNEST WALTER, Clerk to Davy, Dunn & Co., Stock Exchange Buildings, 24, Anglesea Street, Dublin.

HARGRAVES, ARNOLD STANLEY, Clerk to P. & J. Kevan, 12, Acresfield, Bolton.

HARRINGTON, THOMAS, Clerk to Hill, Vellacott & Co., Finsbury Circus House, Blomfield Street, London, E.C.2.

HARRIS, FRANK JOHN, Clerk to J. Pearson Griffiths, 10, Clarence Place, Docks, Cardiff.

HILLAN, EDWARD VINCENT, Clerk to Charles Magee, 1, Wellington Place, Belfast.

HODGKINSON, SIDNEY GEORGE, Clerk to Saffrey, Sons & Co., 14, Old Jewry Chambers, London, E.C.2.

HOLT, TOM CHADWICK, Clerk to Hindle & Jepson, 18, Railway Road, Darwen.

HORROCKS, HENRY, Clerk to Tudor Davies, Wyndham House, Bridgend, Glam.

HYLAND, EUGENE PHILIP, Clerk to F. E. Anderson & Co., 20, Bedford Row, London, W.C.1.

JOHNSON, HARRY, Clerk to Paton, Boyce & Welch, 3, Piccadilly, Bradford.

JONES, WILLIAM TUDOR, Clerk to Alban & Lamb, Imperial House, Kingsway, London, W.C.2.

KAY, THOMAS, Clerk to Porter, Matthews & Marsden, 43, Preston New Road, Blackburn.

KELSEY, GEORGE HOUGHT, Clerk to John Nicholson, 185, High Street, Lincoln.

KIRKHAM, WILLIAM, Clerk to Camm, Metcalfe & Co., Town Hall Chambers, Fargate, Sheffield.

KIRKSTEIN, DAVID EMANUEL, Clerk to Crane, Houghton & Crane, 30A and 31, St. Paul's Churchyard, London, E.C.4.

LUBBOCK, HENRY WEBSTER RONALD, City Treasurer's Department, The Guildhall, Portsmouth.

MAGEE, JOSEPH, Clerk to Muir & Addy, 7, Donegall Square West, Belfast.

MARSHALL, HUBERT WILLIAM, Clerk to Carnaby, Harrower, Barham & Co., 13, High Street, Guernsey, C.I.

MARSHALL, JAMES MAURICE, City Treasurer and Accountant's Department, The Guildhall, Portsmouth.

MASTER, NARIMAN FAKIRJI, Clerk to Pix & Barnes, 24, Coleman Street, London, E.C.2.

MORGAN, ALBERT HAROLD, Clerk to Ernest C. Morgan, Crown Chambers, Newtown, Mont.

MORTIMER, LESLIE, Clerk to Auker, Horsfield & Co., 21, Forster Square, Bradford.

PARKER, ARTHUR TWEDDLE, Clerk to W. T. Walton & Son, 3, Scarbro' Street, West Hartlepool.

PELL, FRANK, Clerk to Henry Pell, 63A, Prince's Street, Stockport.

PERKINS, ERNEST LEWIS BANBURY, Clerk to Deloitte, Plender, Griffiths & Co., Avenida Roque Saenz Pena 547, Buenos Aires, S. America.

PICKNELL, VICTOR WILLIAM EDWARD, Borough Treasurer's Department, Town Hall, Eastbourne.

PLATEL, FRANCIS VITTERY, Clerk to G. O. Harrison & Co., 8, St. Mary's Street, Shrewsbury.

POLLOCK, JOHN BRUNTON (Evelyn Glover & Pollock), 8, Bureau Lane, Pretoria, S. Africa, Practising Accountant.

PURCELL, FREDERICK MORRIS, Assistant Accountant, Wiggins & Co. (Hammersmith), Limited, 239, King Street, Hammersmith, London, W.6, formerly Clerk to F. Rowland & Co., 76, Finsbury Pavement, London, E.C.2.

RATHJEN, JOHN STEWART CARMICHAEL, Clerk to Price, Waterhouse & Co., 3, Frederick's Place, Old Jewry, London, E.C.2.

READ, WILFRED ALAN, Clerk to G. W. Wheeler & Co., Cathedral House, Paternoster Row, London, E.C.4.

REED, JOHN, A.C.A. (Laverick, Walton, Hammond & Co.), Martins Bank Chambers, Fowler Street, South Shields, Practising Accountant.

ROBINSON, HERBERT ALEXANDER, Clerk to William Chadwick & Co., 8A, Lord Street, Liverpool.

SCHOLTZ, HENRY RUDOLF, 9, Henwood's Arcade, Johannesburg, Practising Accountant.

SLY, THOMAS WILLIAM (Mortimer & Sly), 43, Chancery Lane, London, W.C.2, Practising Accountant.

SQUIRE, GLYN MELBOURNE, Clerk to Ashmole, Edward & Goskar, Cornhill Chambers, Christina Street, Swansea.

STOBBS, ALEXANDER WILLIAM, Clerk to Price, Waterhouse & Co., 31, Mosley Street, Newcastle-on-Tyne.

THOMAS, WALTER PERCY, Clerk to Mayhew & Lawley, 62, Oxford Street, London, W.1.

TRAPP, NORMAN HENRY, Clerk to W. C. Tuke, 38, Walbrook, London, E.C.4.

TURTON, GEORGE WILLIAM, Clerk to Leman, Hill & Hilton, 1, St. Peter's Church Walk, Nottingham.

VAN HAM, ERNEST, City Treasurer's Office, Town Hall, Newcastle-on-Tyne.

VAUGHAN, ROLAND, Clerk to F. R. Lonsdale, 30, Willow Street, Accrington.

WAKEFORD, FREDA, Clerk to F. L. Rouse & Co., 2, New Court, Lincoln's Inn, London, W.C.2.

WEEKS, ARTHUR HENRY, Bank Buildings, 40A, Woodgrange Road, Forest Gate, London, E.7, Practising Accountant.

WHITE, GEORGE VICTOR, Clerk to Saunders, Daffarn & Saunders, Gresham College, Basinghall Street, London, E.C.2.

WHITLEY, WILLIAM, Clerk to Squiers & Co., King's Court, 115, Colmore Row, Birmingham.

WILLIAMS, DONALD FREEKE, Clerk to J. Wallace Williams & Co., 5, St. Andrew's Crescent, Cardiff.

WILLIAMSON, ROBERT, Standard Bank Chambers, Gwelo, Southern Rhodesia, Practising Accountant.

WOODS, EDWARD ALBERT, Clerk to Kilby & Fox, Drury Chambers, Market Square, Northampton.

UNEMPLOYMENT INSURANCE.

Memorandum on the Financial Resolution relative to Unemployment Insurance. Presented by the Minister of Labour to Parliament last month.

1. Paragraph (*a*) of this Resolution proposes to authorise the introduction of a Bill to increase to £90,000,000 during the deficiency period the borrowing powers of the Unemployment Fund. The deficiency period is defined in sect. 16 of the Unemployment Insurance (No. 2) Act, 1921, as the period between the passing of that Act and the date when the Treasury certify that the Unemployment Fund is solvent. Such certificate may not be given while any advances to the Fund are outstanding. The Unemployment Insurance (No. 4) Act, 1930, authorised the Treasury during the deficiency period to advance money out of the Consolidated Fund to the Unemployment Fund up to a limit of £70,000,000.

2. The No. 4 Act was passed on December 19th, 1930, when the debt was £59,090,000 and the live register 2,299,600. The debt has since increased to £65,980,000 and at the date of the latest return (February 2nd) the number on the live register was 2,624,200. Excluding accrued interest, which is payable on March 31st, 1931, the debt has increased since December 19th, 1930, at an average weekly rate of about £985,000. The weekly expenditure at present exceeds income by about the same amount, and at this rate the present borrowing powers will be exhausted at the beginning of March. The half-yearly payment of interest due on March 31st, 1931, will amount to about £1,500,000.

3. No part of the increase in debt since April 1st, 1930, is due to the payment of Transitional Benefit, *i.e.*, benefit paid to claimants not possessing the normal contribution qualification (30 contributions in the last two years). The cost of such transitional benefit is met by a grant from the Exchequer under sect. 16 (2) of the Unemployment Insurance Act, 1930.

4. Clause (*b*) of the Resolution proposes to authorise the extension by a further six months of the Transitional period during which benefit may, under certain conditions, be paid, although 30 contributions have not been paid by the claimant in the past two years. Under existing legislation Transitional Benefit begins to expire on April 18th, 1931, and comes entirely to an end on April 17th, 1932. The Resolution will authorise the postponement of each of these dates by six months.

5. Clause (*c*) of the Resolution proposes to give authority for the cost of the extension, including administration, to be covered by an additional payment from the Exchequer to the Unemployment Fund as is the case with Transitional Benefit under existing legislation—see para. 3. It is not practicable to furnish a close estimate of the cost of the extension, but it is probably of the order of £20 millions, about £13 millions of which will fall in the financial year 1931-32. Under existing legislation the estimate of the cost of Transitional Benefit in 1931-32 would be about £17 millions, which, by the present proposal, would be increased by £13 millions to £30 millions.

Mr. A. C. Harrison, the brilliant wing three-quarter, who played for England against Ireland in the R.U. football match on February 14th, is serving his articles with Mr. T. J. Groves, F.S.A.A., of West Hartlepool. Mr. Harrison is nineteen years of age and is a member of the Hartlepool Rovers R.F.C. and Durham County.

COMMERCIAL EDUCATION.

The Lord Mayor presided at a meeting, arranged by the London Chamber of Commerce, which was held at Grocers' Hall on February 19th, when the Right Hon. Lord Hanworth, K.B.E., Master of the Rolls, presented prizes, medals and scholarships awarded by the Commercial Education Department.

The Lord Mayor, in addressing the meeting, said he was increasingly impressed with the importance of commercial education, in regard to which the London Chamber of Commerce had carried out such valuable work. The education received at school required to be supplemented, in the case of those engaged in commercial and professional pursuits, by specialised commercial studies. That was the direction of the work of the London Chamber of Commerce. It facilitated promotion and progress to those who took advantage of it and enabled employees to obtain well-trained and efficient service from their staffs. He congratulated the Chamber on its Commercial Education Department.

Lord St. John of Bletso, the chairman of the Commercial Education Committee, presented the report of the committee for the past year. He drew attention to the comprehensive examination scheme of the Chamber in commercial subjects, which was made available to students all over the country and overseas through local examination centres. He referred with satisfaction to the increase in number of those who had benefitted by presenting themselves for the Chamber's examinations. From a perusal of the list of awards, handed to those who attended the meeting, they would see the comprehensive character of the work and the substantial Travelling Scholarships the Chamber was in a position to offer, also the other prizes for exceptionally good work. The London Chamber of Commerce was facilitating the national work of education in a voluntary and, he believed, in a very helpful way.

Lord Hanworth, Master of the Rolls, having presented the Awards and Prizes, gave a stimulating address, in the course of which he congratulated the prize-winners and paid a tribute to those leaders of Commerce and Finance in the City who devoted their time and attention to Commercial Education. Lord Hanworth said that commercial education was part of a wide movement to increase the efficiency of the nation. He was particularly glad to be at that meeting, over which the Chief Magistrate of the City of London presided, and in the Hall of an old City Company of which he (Lord Hanworth) had the honour to be a member. There was no place in the world which offered better facilities for commercial training and education than the City of London, the centre of world trade and finance. The keynote of the great reputation of the City of London was that the word of the English business man was his bond. The spirit which had animated commercial men, the bankers and financiers in times past was still with them to-day and was respected throughout the world. He could not strike a higher note than to urge the next generation to live up to that reputation. In the course of a long career, Lord Hanworth added, his chief happiness in life had been derived from work, an experience which he gladly asked them to share.

Lord Herbert Scott, President of the Chamber, proposed a vote of thanks to Lord Hanworth, and Sir Alexander Gibb proposed a vote of thanks to the Lord Mayor for presiding, the votes being carried by acclamation.

Among the recipients of Awards and Prizes presented by the London Chamber of Commerce were the following :

One "Charles R. E. Bell Fund" Senior Travelling Scholarship of £150 for Proficiency in the Senior Examination in English and Modern Foreign Languages, to James B. Wright, Sheffield.

One "Charles R. E. Bell Fund" Senior Travelling Scholarship of £150 for Proficiency in the Senior Examination in English and Modern Foreign Languages, to John P. Furnivall, Caius College, Cambridge.

Institute of Chartered Accountants Prize for Book-keeping and Accountancy, Cecil S. Driskell, London.

Society of Incorporated Accountants and Auditors' Prize for Arithmetic, Book-keeping and Handwriting, James Coomes, London.

CITY OF LONDON COLLEGE.

The development of the City of London College as a centre for commercial education in the City was exemplified in the gathering at the Guildhall at the end of last month, at which the Lord Mayor took the chair, on the occasion of the distribution of prizes and scholarships.

The Lord Mayor, in calling upon Mr. J. W. Ramsbottom, M.A., M.Com., Director of the College, to submit his report, invited all those who were publicly engaged in business or professional life, including the students, to understand the importance of discipline, which he felt was seriously depreciated at the present time. Not only was discipline essential to the careers the students might choose, but was vital in the national life. On the practical side the Lord Mayor stressed the importance of modern languages and salesmanship.

The report, which was read by the Director, reflected considerable optimism, supported by the fact that the work of the College had doubled within the last few years. Mr. Ramsbottom believed it was of great advantage to the City that young men destined to assume positions of responsibility in business, should after leaving school, take a short intensive course in business knowledge. In the United States of America the movement for commercial education was widespread, and rather more importance was attached than in this country to those who had carried out a course of business study. The system of commercial education in the United States was characterised by a somewhat lavish expenditure of money, but Mr. Ramsbottom had confidence in stating that in Great Britain the quality of those engaged in this work was second to none, especially as many of them had been or were engaged in the practical work of business and finance.

Mr. John Buchan, M.P., in presenting the prizes, said it was a mistake to treat culture and business as two watertight compartments with no mutual relations. He was glad to find from the syllabus and work of the City of London College that the utilitarian side of business education was also associated with cultural ideals. Business was a great human activity and literature was a record, an interpretation of all human activities. Business might consist of dull and mechanical operations unless it was conducted with a true sense of proportion and a wider knowledge which came from a liberal education. It was true and it was proper that Englishmen had relied upon character and had looked to character as the aim of education; but brains and intelligence were scarcely less necessary, and he put forward the ideal of character, illuminated by intelligence, as the goal for which they should aim.

A vote of thanks to Mr. Buchan was moved by Brigadier-General A. Maxwell, and seconded by Mr. F. R. Dale, M.A., Headmaster of the City of London School. The Lord Mayor was also thanked for taking the chair.

The Conduct of Investigations.

A LECTURE delivered before the Incorporated Accountants Students' Society of London by

MR. L. H. GRAVES,
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. H. E. COLESWORTHY, A.C.A., Incorporated Accountant.

Mr. GRAVES said: When your Secretary invited me to give a lecture before the Students' Society I accepted the invitation because I am a member of the Students' Society myself, and look upon it as a pleasure and a privilege to speak to my fellow members on a subject which, I believe, is of mutual interest.

I am firmly of opinion that students can derive much benefit from these meetings, and I cordially endorse the views of your President and Committee that a more personal participation in the discussions at these lectures is an advantage. I hope, therefore, that students will make good use of the opportunity for discussion which is to follow. I believe that only by this means can the fullest benefit be derived.

I am conscious that the subject of this evening's lecture has very great scope, and in the limited time at my disposal I will endeavour to deal with the subject in as comprehensive a manner as possible.

Investigation work as a branch of the practice of the professional accountant has become increasingly important during recent years. This, to a great extent, is due to the flotation of big combines, comprising many companies under common ownership and control, and particularly the movement towards rationalisation of industry involving as it does the amalgamation of businesses.

In the solution of the problems that call for investigation, the services of the professional accountant are now recognised as of paramount importance. I feel, therefore, that the conduct of investigations is a subject which we can with benefit consider this evening.

Then, again, accountants have been called upon to conduct investigations on a far larger scale than ever before, due, as we are all aware, to the heavy losses suffered by the investing public, either through frauds or the collapse of companies promoted during the recent industrial boom to exploit *quasi* inventions, licences and the like, accompanied by glowing statements of prospects and extravagant estimates of profits which have not, and in most cases never could have materialised.

In most investigations one is brought into much closer contact with the technical and commercial sides of business than in the course of ordinary audit work, and in the elucidation of the various problems which arise exceptional opportunities for the exercise of skill, ingenuity and enterprise are presented.

CHARACTERISTICS OF INVESTIGATIONS.

What is an investigation, and in what characteristics does it differ from an audit? These, I imagine, are the first thoughts to occur in one's mind.

An auditor's duty, stated concisely, is primarily to ascertain facts and set them out in correct form. In making an investigation, we must be prepared to go deeper than this and study the facts, pursuing them to the point of research in order to deduce correct conclusions. It often involves the study of the financial position of an undertaking in order to make recommendations with a view to increasing the efficiency and stability. On the

other hand, a thorough knowledge of audit practice is necessary, as many matters arising on audits will in some form or another occur during the conduct of investigations. In order to obtain the true perspective, it is essential to appreciate the distinction.

In my experience I have often found that an investigation starts, one might almost say, where an audit finishes. Many investigations, certainly, have as part of the data sets of accounts already audited, and, again, investigations invariably arise owing to circumstances which render it necessary for the work to be completed as rapidly as possible. In my experience I do not remember a case where this has not been so.

SCOPE AND OBJECTS.

In order to demonstrate the scope of the work it may be necessary to perform, I will indicate here some of the purposes for which accountants are called upon to make an investigation :—

(*a*) To investigate a number of businesses to be amalgamated or acquired, and to submit a scheme for their amalgamation.

(*b*) To report on trading losses, their causes and remedy.

(*c*) To make an investigation into factory costs and instal a proper costing system.

(*d*) To make an investigation where there is suspicion or discovery of fraud and embezzlement.

(*e*) Then, again, an accountant is called in when a company by reason of shortage of working capital is unable to meet its obligations, in which case it may be necessary to consider a scheme to place before its creditors to avoid liquidation. The investigating accountant usually works with a committee of the largest creditors. Or it may be possible to obtain further capital from the shareholders, usually by means of a scheme for reconstruction.

(*f*) Furthermore, unfortunately, there have been many cases recently where a company has not only failed to fulfil the estimate of profit indicated in its prospectus, but has suffered heavy losses, and shareholders have insisted on an investigation into the promotion, flotation and conduct of the company's affairs in order to discover causes of the failure. In cases of this nature, an accountant is usually called upon to conduct the work, with or without a committee of shareholders.

(*g*) In exacting tribute for our friend the Chancellor of the Exchequer, an accountant on occasion is called upon to investigate accounts where the Revenue claims arrears of taxes underpaid.

There are provisions in the Companies Act, 1929, for investigating the affairs of a company.

Under sect. 135, which re-enacts the 1908 Act, the Board of Trade may appoint inspectors on the application of members holding one-tenth of the shares issued, or in the case of a banking company with a share capital, on the application of members holding one-third of the shares issued ; or in the case of a company not having a share capital, on the application of not less than one-fiftieth of the number of the members on the company's register of members. The inspectors so appointed report their opinion to the Board of Trade, and a copy of the report is forwarded to the registered office of the company, and a further copy shall, at the request of the applicants for the investigation, be delivered to them.

The section sets out the powers of the inspectors, which include examination on oath of the officers and agents of the company.

Under sect. 136, if it appears from any such report that any person has been guilty of an offence in relation to the company for which he is criminally liable, the board may refer the matter to the Director of Public Prosecutions. It is interesting to note that this is a new provision first introduced in the Companies Act, 1928, and is applicable whether a company subsequently goes into liquidation or not.

The costs of the investigation, where a prosecution is instituted by the Director of Public Prosecutions, are defrayed by the Board of Trade. In other cases the expenses are defrayed by the company or the applicants, as the Board of Trade directs.

By sect. 137 a company may, by *special resolution*, appoint inspectors to investigate its affairs, and the inspectors so appointed have the same powers and duties as inspectors appointed by the Board of Trade, except that, instead of reporting to the Board of Trade, they shall report in such manner and to such persons as the company in general meeting may direct.

PROCEDURE.

I propose now to consider procedure. Instructions to make an investigation should be read carefully, in order to avoid any risk of misinterpretation. In this connection I am reminded of an excellent maxim which as an examination student served me in good stead, and which no doubt we all recognise :—To deal with the question set, and not to answer something which is not asked.

Now, at the outset I want to stress the importance of following this maxim. This, you may say, should be an easy matter, but as I have found in some cases, owing perhaps to loosely worded instructions, it is not so easy as at first sight it appears. The scope and object of your instructions should be clearly visualised in order to avoid dealing with matters outside which will tend to confuse the issue. This is an important point for one of the chief indications in a report of an efficient investigation is that the questions at issue have been dealt with in a clear and lucid manner.

Let us consider for a while, as concisely as possible, the conduct of a typical investigation and certain points to which it may be necessary to direct attention.

Imagine the case of a company which has got into acute financial difficulties and is in need of additional capital. Assume that it is either not practical or expedient to raise fresh capital or borrow the necessary money. The only other means of saving the situation is to come to an arrangement with the trade creditors for extended credit by means of a scheme for liquidating the existing liabilities, thus enabling the business to obtain supplies and continue trading. We have been asked to investigate the position and make recommendations.

There are several factors which may cause or contribute to the financial difficulties, or, in other words, a shortage of working capital. These may be stated in the following manner :—

(1) Healthy extension of the business calling for additional expenditure on the plant, machinery, &c., and the carrying of larger stocks and heavier debtors.

(2) Heavy non-recurring charges, such as intensive advertising.

(3) Excessive stocks.

(4) Exceptional losses of a capital or revenue nature.

(5) General trading losses.

Now our duty will be defined under the following headings :—

(1) To discover the causes of the present financial difficulties.

(2) To consider and examine future prospects.

(3) To decide whether the interests of the unsecured creditors are better served by continuing the business or by winding up, and lastly,

(4) To report on each of these three questions and make recommendations, and if we are of opinion that the business should be continued, advise on a scheme for paying the creditors.

At the outset we should obtain a copy of the Memorandum and Articles for perusal and of the last audited accounts, accompanied by detailed schedules, and those of previous periods, say three years, if the concern has been trading as long. If the auditor's reports contain any qualifications these should be noted.

If the last accounts are not made up to a recent period, immediate steps should be taken to get the books written up and a set of accounts prepared to show the present position. This may also involve a physical stocktaking, but one must be guided on this point by such factors as the time available, and whether it is not possible to avoid the inevitable dislocation and expense which a physical stocktaking involves, and arrive at an approximate figure based on the last stocktaking, brought up to date from the financial books and costing records.

It will be necessary to consult the chief officials in order to become thoroughly conversant with the nature of the business. We shall also require to make careful notes of outstanding contracts for the purchase of material and all orders on hand for sales for future delivery and the prices in each case ; also, we shall need particulars of all other contracts and agreements, as, for instance, royalty agreements, leases and important service agreements.

It will not always be found that the company's records are in such good order that there is no difficulty in getting information required. It may be that the books and records are in arrears or in confusion, and that, consequently, in the time available, it is not possible to prepare a complete set of accounts.

I am afraid the only alternative will be to extract an approximate balance sheet, but in this event greater care must be exercised in accepting the figures of the assets and liabilities, particularly the debtors and creditors

The existence of such circumstances, however, should be referred to in our report, as they indicate an unsatisfactory condition of affairs and render the investigator's task much more difficult.

In order to facilitate dealing with points which may arise on any of the audited accounts which we are using it is desirable to obtain permission to discuss any matters arising thereon with the company's auditors.

Where trading accounts are available for previous periods—I have suggested three years, but it is a matter for individual discretion—these trading accounts might be summarised in columnar form to show the comparative figures, the various expense items being grouped under suitable headings in order to avoid unnecessary detail, any non-recurring or otherwise important items being shown separately so that they will not be lost sight of.

Comparative percentages will be useful, and also a statement of future expenses where reductions are proposed.

SUBSIDIARY COMPANIES.

Now in dealing with subsidiary companies we have a factor which can be of great importance. If the balance sheet discloses that the company owns subsidiary businesses, their affairs should be examined equally with those of the parent company. It will be necessary to obtain the latest accounts or a statement of affairs of each one, for it will be impossible to ascertain the true position without considering these subsidiary undertakings. Our aim should be to obtain exactly similar information and accounts as in the case of the parent company.

We must first of all understand clearly what constitutes a subsidiary business. This depends partly on the proportion of capital held and partly on the degree of control exercised by the parent company.

When the latter owns more than 50 per cent. of the issued share capital, either directly or through a nominee, or such as to entitle it to more than 50 per cent. of the voting power, where it operates the business and dictates its policy, then the necessary conditions are fulfilled. It is usually found in practice, however, that the whole or practically the whole of the subsidiary capital is held by or on behalf of the parent company.

A subsidiary may be either a limited company, as is usually the case, or it may be a company without a share capital.

You will doubtless appreciate that it may be necessary to treat the trading accounts for each period as one when it is realised that it is possible for the parent company to sell to a "subsidiary" at inflated prices or to turn over to it the section of its business which is least remunerative in order to represent the benefit thereby in its own trading results.

By consolidation of these accounts, the unrealised profits of one company out of the sales made to another will be eliminated, and the resultant net profit or loss will be the aggregate of the individual results. In combining the trading results, a portion of the profits or losses of subsidiaries applicable to minority interests, if any, must be deducted.

By this means we show the results of trading of the whole undertaking as one entity. In other words, we treat the whole organisation as being under the same ownership just as if it were one undertaking operating several factories or departments.

In combining the figures we must have regard to certain adjustments which will be necessary.

Firstly, any dividends received from subsidiaries must be omitted. This adjustment should be apparent as being an inter-company item, it will show on both sides of the combined accounts.

Secondly, the inter-company sales should be excluded, for whilst the omission to do this does not alter the net result of the trading operations, unless they are eliminated the items will appear on both sides and swell the totals of the turnover and purchases, &c., and give misleading results.

Further, any excessive inter-company profit on capital expenditure should be eliminated by writing off the excess from the asset account to the combined trading account, and the invoice value thereof excluded from the turnover ; and

Lastly, where these inter-company dealings take place, stocks on hand will include inter-company profit. For instance, a subsidiary may have in stock goods purchased from the parent company charged out at a profit, and where the effect is to inflate unduly the value of the stocks, the figures should be reduced.

In these days of big consolidations it frequently happens that trading takes place within a group by inter-company dealings in the process of converting raw materials into the finished article in the same way as they would arise if each company was a separate department of one organisation and performed some operation or rendered some service in producing the finished article. Legally, each

concern is a separate entity, and is entitled to take up its share of profit on such dealings, but where inter-company dealings are substantial there should be a system in operation to record as a separate item of cost in the books of each company the inter-company profit comprised in the transactions with other members of the group, so that a reserve can be made at the end of each accounting period for inter-company profit included in the stocks in hand.

Having consolidated the trading figures, now let us consider the preparation of a statement showing clearly the exact nature of the assets and liabilities of the parent company.

This can be achieved by means of a consolidated balance sheet, which by combining the assets and liabilities of the parent and subsidiaries, under the usual and proper headings, gives a statement of the position free from legal technicalities.

I cannot in the limited time available go too fully into the method of preparing a consolidated balance sheet, but the effect is that the shares, loans and current accounts appearing in the individual balance sheets are replaced by the assets and liabilities of the subsidiaries which they represent. The figures should be prepared in columnar form, each separate column showing the figures for one company, and a column which will show the totals, eliminating inter-company items which will contra one another, but showing the outside creditors of subsidiary companies separately from the creditors of the parent company.

This consolidated balance sheet sets out clearly the exact nature of the assets belonging to the parent company, and is most appropriate and effective from a shareholders' point of view, but from a creditors' point of view must not be considered without this qualification. That where there are outside creditors of the subsidiaries, such creditors would appear in the combined balance sheet and the assets of the subsidiaries likewise, whereas in view of the fact that legally each company is a separate entity, the combined assets are not available *pro rata* for the combined creditors, and it would be incorrect to estimate the creditors' prospects on a valuation of the assets in the combined balance sheet.

I will refer back to the consolidated balance sheet presently when we consider the preparation of a statement of net assets available for the unsecured creditors.

I propose for a moment to return to the trading results and to consider the figures in order to discover the causes of the present financial difficulties and examine future prospects.

Conditions vary widely in different businesses, but I want here to deal with matters arising on the trading accounts to which in principle it may be necessary to direct attention.

SALES.

Let us first consider the sales; if the results cover a short period, the comparison of annual sales should be supplemented by those for shorter periods, say for each month.

You will be guided on this point by individual circumstances and the character of the business being carried on.

If there are big variations in the turnover, causes should be ascertained.

Where the business is of a seasonal nature comparisons of consecutive periods would be misleading. The results should be judged on a comparison of corresponding periods, care being taken to adjust any other factors which effect a true comparison, *e.g.*, goods on sale or return or on consignment which may have been invoiced out and included in the sales, and perhaps returned in a later period and debited to sales. Where there have been variations in selling prices and changes in the character of the business, factors such as these must be taken into account in judging the amount of the sales.

Where a business deals in various classes of goods it may be necessary to obtain and compare the sales of each class, or department, as the case may be.

STOCKS.

We shall require to see inventories of the present stocks and ascertain the basis of valuation, which should be cost or current market value, if lower. It will also be necessary to see that any adjustment already referred to where inter-company profits are included has been made.

It may be found that substantial writings-off in the values of the stocks have already taken place, which in the period when the writing-off took place will be reflected in a reduction in the percentage of the gross profit, a factor which must not be overlooked when inquiring into the reasons for losses already shown in the accounts.

If the stocks appear to be unduly heavy having regard to the turnover, it may be found, on looking into details, that the company is holding stocks which are not readily saleable, perhaps through being obsolete or through a falling off in demand caused by changes in the public taste, and that a drastic revision of the values thereof must be made.

COSTS AND OUTPUT.

In directing attention to the factory organisation, output and manufacturing costs, we should ascertain in the first instance whether there is a costing system. I have met circumstances where, owing to the character of the business, a proper costing system was indispensable, whereas in fact it was entirely absent, with the result that costs had been much under-estimated, the effect of which largely contributed to the insolvent state of the business I have in mind.

Assuming, however, that there is a costing system, it may be necessary to ascertain the position with reference to production orders in hand. There may be a large amount of goods in production in excess of requirements or of a character for which there is a falling off in demand. If the percentage of gross profit is abnormally low, inquiries should be made as to the cause and as to whether it is due to costs being unduly high, in which case we must be prepared to make recommendations. On the other hand, selling prices may be too low, but whether this can be remedied is a question which depends on market conditions generally, such as severe competition, price-cutting, &c.

We may come to the conclusion, as a result of the evidence before us, that the manufacturing methods need bringing up to date if costs are to be reduced, or that the manufacturing side of the business is suffering from lack of proper organisation.

In most manufacturing undertakings experimental and research work must be carried on more or less continually if the business is to keep pace with the times, firstly as to its products, and secondly as to its methods or processes of manufacture. A certain amount of money spent in this direction, therefore, is not unusual.

In this connection, however, care must be exercised to avoid injudicious expenditure, for it may so happen that, owing to lack of control, much good money is frittered away, particularly where experiments and vital alterations are carried out on work during production, thus causing a big increase in costs and making it difficult to distinguish between production costs and experimental work. Where a full inquiry is necessary

in this direction it may disclose that there have been technical difficulties of manufacture which have contributed to the present position.

When we have completed the examination of the trading results, we shall be in a position to say whether and, if so, to what extent the present position has arisen through trading losses. We should also be in a position to express a considered opinion as to the future prospects of running the business at a profit and to advise on any matters which will promote efficiency and economy.

It is necessary now to examine the company's assets and liabilities, particularly in relation to the prospects of the creditors in the event of an immediate liquidation.

We have already prepared from the books the balance sheet and consolidated the figures where there are subsidiaries.

We must supplement these figures with a statement of affairs showing the assets available for the unsecured creditors, giving the book values and estimated realisable values in separate columns.

The intangible assets, such as leases, goodwill and patent rights, although shown, will not in ordinary circumstances be valued, as in a winding up their value is very doubtful.

The shares in and advances to subsidiary companies will be valued on the basis of a statement of affairs for each company, deducting from the value of the assets the proportion applicable to any outside creditors and minority shareholders.

Where, however, as sometimes happens, the parent company is a debtor to a subsidiary company instead of being a creditor, it may mean a somewhat involved calculation to assess with arithmetical precision the value of the shares held by the parent company in the subsidiary company, as the value of the debt due by the parent company must be included in the subsidiary assets before we can assess the value of the subsidiary company shares, whilst the shares held in the subsidiary company must be valued before we can estimate the value of the debt due by the parent company. I just mention this point in passing.

In valuing the assets and calculating the estimated return to creditors in an immediate liquidation, special regard should be paid to two points :

Firstly, whether there are any special features attaching to the assets, such as maintenance guarantees in the case of book debts, which will seriously reduce their realisable value ; and

Secondly, the extent to which the creditors will be increased by claims for damages for breach of contract for supply of goods, claims under leases, service agreements, &c.

At first sight it would seem that unless the business can be run at a profit it would be futile to carry on, and the sooner it is wound up the better.

A decision on the question of winding up, however, should not be made on this factor alone.

For instance, it may so happen that, whilst on the one hand the prospects of continuing the business at a profit are somewhat doubtful, on the other hand it would not be advisable to recommend, without qualification, an immediate winding up, having regard to the character of the assets, some of which, for instance, patent rights and book debts just mentioned, could without doubt be disposed of or realised to better advantage whilst the company is a going concern.

Further, I believe personally in the wisdom of helping a lame dog over a stile, and where the business is a sound one and its difficulties are temporary, or, with goodwill, can be overcome, that it is better for the creditors to assist in carrying it on and so preserve a market for their goods.

The result of our investigation will have to be embodied in a report, or may be submitted verbally during the course of the investigation to meetings from time to time held by a creditors' committee which will have been appointed.

Where it is proposed to submit a scheme, a statement of estimated revenue and expenditure must be prepared in order to arrange when the payments to the creditors shall be made, the method generally adopted being by monthly or quarterly instalments over a period of, perhaps, one, two or three years, according to circumstances. This statement must be prepared with very great care in order to avoid, as far as possible, any possibility of default in payment of any of the instalments.

The revenue to be derived from any of the following sources should not be overlooked :

(*a*) Realisation of existing stocks, debtors, and other assets.

(*b*) Proceeds from the realisation of existing stocks, debtors, and other assets, of subsidiary companies available for the parent company.

(*c*) Current sales—care being taken to allow for normal credit.

(*d*) Further working capital to be provided by loans, &c.

The expenditure may include the following :

(*a*) Amount required for immediate payment of creditors for small amounts.

(*b*) Maintenance of subsidiary companies, including payment of any outside creditors thereof.

(*c*) Current expenditure for wages, purchase of materials and establishment expenses.

(*d*) Maintenance expenditure in connection with existing debts and contracts.

Our investigation is bound to take several days, and perhaps weeks will elapse before any scheme which may be proposed can be properly sanctioned.

I want us, therefore, to discuss for a moment the position of the company in the meantime.

The company's business may virtually have been brought to a standstill for the reason that the company will no longer be able to obtain normal supplies.

It generally follows, however, that when a company is in this position, the creditors through their committee, in order to preserve their rights, will agree to the company obtaining purchases for cash from day to day, in so far as may be necessary to protect and preserve the assets.

But measures must also be taken to protect the interests of the whole of the creditors. Now under sects. 173 and 174 of the Companies Act, 1929, any disposition of the property after commencement of a winding up (which is the date of the petition) shall, unless the Court otherwise orders, be void, and similarly, executions put in force are also void. A petition for compulsory winding up is necessary, therefore, to prevent any creditor from issuing execution or obtaining preferential payment.

It will be observed, however, that these two sections apply where a winding up order is made. If, however, as a result of a scheme of arrangement with the creditors, the petition is subsequently withdrawn, it would appear that payments made or executions put into force after the presentation of the petition will be valid.

Therefore, in order for the creditors to obtain complete protection, it seems that application for the appointment of a provisional liquidator should be made immediately

following the presentation of the petition, the effect of which, by sect. 177 of the Companies Act, 1929, prevents any action or proceeding from being proceeded with or commenced against the company, except by leave of the Court.

The appointment of a provisional liquidator is essential where it is necessary for the company to continue business whilst the investigation is proceeding, for the provisional liquidator, on his appointment, becomes responsible for making any payments on behalf of the company and the only payments he will authorise will be for current liabilities which are incurred in order to carry on the business.

If, as a result of the investigation, it is proposed that the creditors be recommended to accept a scheme of arrangement for payment of their claims, such scheme, in order to be binding on the whole of the creditors (and it is useless unless it has this effect), such scheme, which is provided for by sect. 153 of the Companies Act, 1929, must be passed by a majority in number representing three-fourths in value of the creditors, present and voting in person or by proxy at a meeting called by the Court for that purpose. The Court must sanction the scheme before it is binding, and when this is done the Court will, on application, allow the petition to be withdrawn.

In order to ensure that the proposed scheme will be passed by the requisite majority, it may be necessary to consider paying in full the small creditors, *i.e.*, those below a certain amount, otherwise, whilst the three-fourths in value of the creditors may be assured by reason of the largest creditors backing the scheme, the majority in number may not be so secure if there are a large number of small creditors who, by voting against the scheme, can defeat it.

In conclusion, I would like to relate just two incidents of interest which arose in connection with investigations with which I had to deal as they illustrate my earlier remarks in reference to the value of investigations as presenting opportunities for the exercise of skill, ingenuity, and enterprise.

The first refers to an investigation of costs and profits.

It was necessary to examine into the margin of profit obtained on a certain class of building material. There were two ingredients required in the manufacture of this article apart from water, which was required in the process. A statement was submitted, extracted from the limited costing records available, showing the quantity and cost of each of the two ingredients, and, after adding overheads, the combined weight and cost was compared with the selling value of a similar weight of the finished article.

These figures were grossly misleading, as the water used in the course of manufacture, the cost of which was, of course, negligible, was not shown as to weight in the costings, whereas, it contributed materially to the weight of the finished article. At first sight this defect was not apparent. It was, however, pointed out that the figures were inaccurate, and when the costings were compared with the quantity of output, a totally different profit was shown.

The other case refers to an investigation of the affairs of a company in compulsory liquidation, guilty of long firm frauds. The liquidator with the assistance of a detective, was seeking to trace a large quantity of cloth which was unaccounted for.

A large number of statements were taken from employees and others who could give any information, but each clue when followed up seemed to bring no definite evidence.

At last a large quantity was traced to a firm of cloth shrinkers, and the liquidator, accompanied by a detective, interviewed the firm in question for further information. Particulars of piece numbers of certain of the missing material were available and these were compared with the cloth-shrinkers records, but nothing could be traced as having been received from the company or its officials.

It seemed once again that we would be defeated ; but here was the only case where all records were willingly made available, as the firm in question was quite *bona fide* and friendly.

The liquidator, therefore, continued the search of these records, and was eventually rewarded by tracing a large quantity of the company's cloth to a firm who had previously repudiated all knowledge of the matter, resulting in a large sum of money being recovered from the directors.

After the discovery was made, the detective, knowing as he did the difficulties of the case, expressed his surprise at the success and inquired whether the liquidator had had previous experience of this class of work.

I am afraid my talk this evening has been somewhat limited in scope, but nevertheless I hope that what I have said has been of interest to students and of some value from the practical standpoint. Investigation work covers such a wide field that it would be impossible to consider it in anything like a comprehensive manner in the limited time available this evening.

Discussion.

The CHAIRMAN : We have listened to a most instructive lecture from Mr. Graves. He apologised in his concluding remarks for the limited scope of his paper, but I think that it was all the more successful on that account, for it is obviously impossible to cover such a wide ground as the conduct of all investigations. He therefore very wisely confined it to a particular class—the investigation of a business on behalf of creditors—and we have benefited considerably as a result. I only want to make one remark, and that is with regard to Mr. Graves' reference to relevancy. I think that is the secret of a successful report on an investigation. I always feel that a very important factor to be borne in mind is the particular requirement, shall I say, of the client for whom the investigation is conducted. In some cases it is necessary to give a very long report, because we know that the client requires it ; in other cases—when he is a busier man—a much shorter report will be far more successful, and we ought to be guided by those considerations. I will now ask the members to put their questions to Mr. Graves on any point arising out of his paper, and I am sure he will not mind if you extend the field slightly and widen the discussion by referring to particular problems you may have had in classes of investigation other than those touched upon by him to-night.

Mr. BRYAN : My particular question, of course, would not arise in the conduct of an investigation for creditors, but I would like Mr. Graves to deal with the subject of goodwill in an investigation of a business for sale as a going concern. Secondly, I would like to ask if Sir Gilbert Garnsey's method of valuing goodwill has ever been improved upon.

Mr. GRAVES : Would you kindly indicate what is Sir Gilbert Garnsey's method ?

Mr. BRYAN : I think he takes a basis of profits over a period of several years and considers the capital employed, and he allots a certain rate of return on this capital, and if the average profits over the period of seven years are in excess, say, of the assumed rate—such as the rate on gilt-edged securities—I think he multiplies the result by seven and calls that goodwill. That is a very rough idea of it.

Mr. GRAVES : The way in which I should value goodwill would be to take the net value of the assets of the business, excluding goodwill, and allow a percentage to cover a return on those assets ; and I should take the

average profits for, say, a period of three years or more —dependent upon the circumstances—and I should deduct the amount represented by the percentage on the assets of the business, and on the balance of the profits I should calculate the value of the goodwill, in order to allow a rather more generous return in respect thereof. For instance, if the average profits were £10,000 and the percentage on the assets would work out at, say, 6 per cent. to absorb £5,000, I should consider a return of from 10 to 20 per cent., perhaps more—dependent on the class of the business—to absorb the remaining balance of profits and the amount necessary to give that return would represent the value of the goodwill.

Mr. D. F. GOODE, A.C.A., Incorporated Accountant: I agree with your remarks, Mr. Chairman, as to the value of Mr. Graves' lecture this evening. He has given us much food for thought. I would like to ask two questions. The first is with regard to what part of the accounts should be taken first when an investigation is started. I understand the Lecturer to say that he would start with the trading account and discover the cause of the losses. Would it not be better to commence with the balance sheet and ascertain the financial position first? My second question is this. In dealing with bills of exchange falling due at various times over a period, say, of twelve months, should one ascertain the present value of those bills, or take the face value? Another point, on the same question—how should the investigator's fee be dealt with? Should it be included amongst the creditors? Then I would like to make a few general remarks on another aspect of investigations, viz, foreign investigations, with which I admit it was impossible for Mr. Graves to deal in his lecture this evening. Now there are so many difficulties in conducting a foreign investigation that one is apt to avoid them, but I can strongly recommend anybody who has never undertaken a foreign investigation not to hesitate to seize the opportunity if it is offered to him. The advantages of the experience are numerous, but there are, as I have said, many difficulties. First, there are the difficulties caused by the climate, which often has a serious effect upon the health of an Englishman when abroad. Then there is the difficulty of the foreign language. Another difficulty is the character and outlook of the people with whom one has to deal. I found on one occasion that the foreigners with whom I was dealing had not the slightest conception of the reason for even an audit, let alone an investigation. Another difficulty to be guarded against is that one is so far away from one's client, many points arise when one is abroad, when a consultation as to limitation, or extension of instructions would be invaluable. There is also the fact that clients in England, particularly in these days, often hesitate to give instructions for a suggested foreign investigation of any magnitude, because they are afraid of the fees. No doubt many of us have met that point of view and taken the necessary steps to remove the cause of the hesitation. In connection with investigations here, our clients very often, as the Chairman pointed out, require a full report, although sometimes only a short one is asked for. But in the case of foreign investigations, if the report has to come to clients in England, it is more difficult to decide as to the length of the report. In such cases I submit that it is much better to err on the safe side by giving the fullest possible information. In conclusion, I should like to say that I recently saw a report from a well known firm of accountants in India who were instructed to investigate accounts for a period of several years. When I first saw the report I was amazed at the size of it, but on reading it I became impressed with the manner in which it was prepared. It seemed to me that the accountants had given all the information that one could possibly require; apparently they had figuratively put themselves in the shoes of their client in England and framed the report in such a way that there was no need for any reference back to them upon it.

Mr. GRAVES: Mr. Goode referred to the question of the desirability of ascertaining the present position by reference to the balance sheet. Well, if you are going to consider a scheme to submit to creditors, or if you are going to consider whether a business should be carried on or wound up, it seems to me that it is important to discover whether the business can be run at a profit. If it can be run at a profit it would be of more advantage to the creditors—provided, of course, that the assets are not prejudiced in any way as to their realisable value—it would be of more advantage to the creditors to continue the business. The position cannot get worse. It would not be wise to consider the financial position of a company by reference to the balance sheet alone, because the balance sheet and the revenue account are so wrapped up together that you cannot consider one apart from the other. In regard to the treatment of bills payable due at a future date, these should be considered at their full value and not less any discounting charge, as proof in a winding-up could be made for the full amount. With regard to the fee for investigation, the investigator should arrange for his fee before he commences his work. He should satisfy himself who is going to pay his fee. If the company goes into liquidation, in all probability he will not get his fee; he will have to rank as an unsecured creditor. If he is appointed by the shareholders, of course, the company will pay his fee. If he is asked to make an investigation on behalf of creditors, the creditors, if they are wise, should stipulate that, if they are going to stay their hands while the investigation is proceeding, the company should bear the cost of the investigating accountant.

On the motion of Mr. GOODE, seconded by Mr. SMITH, Mr. Graves was warmly thanked for his lecture, and on the motion of Mr. G. ROBY PRIDIE a vote of sympathy with Mr. Barton in his illness was carried unanimously.

STOCK EXCHANGE AND CERTIFICATION OF TRANSFERS.

The following notice dated January 29th has been issued by the Committee of the Stock Exchange:—

From February 2nd, 1931, the certification of transfers by this department will be extended, and from that date will include the shares of companies quoted in the following sections of the official list:—Railways, Great Britain and Northern Ireland; Indian railways; railways, Dominion and Colonial; foreign railways, banks and discount companies, breweries and distilleries, canals and docks; commercial, industrial, &c., electric light and power.

Printed directions, giving details of new procedure, have been available at this department since December 23rd, and members who have not already done so are requested to obtain copies of these and hand them to their managers or transfer clerks.

Obituary.

JOHN EDWIN AIKMAN.

We regret to state that Mr. John Edwin Aikman, F.S.A.A., died at Trinidad on February 15th, at the age of 75. Mr. Aikman became an Associate of the Society in 1888 and a Fellow in 1891. Most of his professional career was spent in South America, where for some years before his retirement he was General Manager of the Puerto Cabella and Valencia Railway. He retired in 1914 and came to England, residing at New Malden and subsequently at Paignton.

The Liabilities and Duties of Auditors.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. WILFRED H. GRAINGER, F.S.A.A.
Chief Accountant and Controller, Prudential Assurance Company, Limited.

The chair was occupied by Mr. RICHARD A. WITTY, Incorporated Accountant.

Mr. GRAINGER said: I feel that the subject chosen for my remarks this evening has been dealt with so often in publications and lectures that I cannot hope to offer you very much that is new, but possibly what I have to say may help a little some of the students who have yet to face their examiners. It is a natural thing for students to regard examiners more or less in the light of enemies, but we will pass that by for a moment.

The definition of an auditor—I think perhaps the only definition that we have ever received—was in the *Kingston Cotton Mills* case where the judge said we were "watch-dogs, and not bloodhounds." But I came across a rather amusing definition in a City paper to this effect: "Auditor—he is said to be a watchdog, but his bark is but a muffled report, and he dare not bite. Formerly the Directors used to turn him out if he did not behave properly, and get another watchdog. This occurred so often that the Society for Prevention of Cruelty to Chartered Accountants intervened and the law is now altered. There are forty different species, all with the same lofty ideals, and most of them with their own registration Bills."

Now, the qualifications of a successful auditor and accountant are a wide knowledge of the theory and practice of book-keeping. He should be so familiar with these that he can apply his principles to any new accounts that he may never have seen before, but having that technical knowledge he is able to understand the entries in the books of account. Not as I heard two students a little while ago. One said to the other, "Everything that comes in goes on the debit side"; the other one replied, "How do I know which is the debit side?" and he was told "That is on the side by the window." (Laughter.) An auditor must have the capacity for taking pains. He must also possess tact and diplomacy, and "diplomacy" is a word that must be interpreted in the right sense. The auditor should always obtain the goodwill of the staff of his clients. It is a great mistake to be too pugnacious in auditing. Do not ride the high horse. It is a very great mistake to antagonise the staff where you are working. If you combine those qualities, I think you will find that it makes for success.

Sir William Plender, in an address he gave some time ago to students, said that the "foundation of success is character." A man may have brilliancy and much learning, but the simpler qualities of industry, integrity, self-restraint and tenacity of will, form foundations which, as a general rule, are more lasting than the former gifts, great as they are. If you take that advice to heart, I am sure there is a fine future in front of you.

The sphere of accountancy must be strictly defined as distinct from that of auditing. Accountancy is *constructive* work, whereas very often auditing is *destructive* work. Sometimes the two things are combined. Very often a man is called in and he finds that the books are merely posted; he has to make out a trial balance and profit and loss account, and then the audit commences when he examines the accuracy of the entries made by the staff.

The position of an auditor, both regarding his obligations and his liabilities, must necessarily depend upon whether he is auditing the books of a private firm or those of a company incorporated under the Companies Act. We shall see presently that there are many obligations thrown upon an auditor who is examining companies' accounts, particularly under the new Act, and he cannot contract himself out of those liabilities and obligations. But in a private firm it is possible to contract yourself out of certain liabilities. If a man says, "I cannot afford to give you more than ten guineas a year. How much can you do for that?" you will tell him. But if you are wise you will get an indemnity from him in case anything is amiss in the portion of the work that you are not paid to examine. It is absolutely impossible in many cases to examine every detail where a man restricts you to a small fee.

The auditor of a limited company is acting on behalf of the shareholders and must report to them upon the accounts of the Directors; he cannot limit his duties, which are clearly set out in sects. 122 to 134 of the Companies Act, 1929.

The functions of an auditor, briefly, are:—

(*a*) To check the correctness of the clerical work executed by bookkeepers or accountants, especially with regard to errors of principle.

(*b*) To detect fraud. Not, of course, to approach the examination in the guise of a detective. We are not to assume that there is fraud unless suspicions are aroused.

(*c*) To advise clients as to the best system of accounts to adopt in their business, and also give them an outline of a good system of internal check.

(*d*) To certify accounts for the benefit of the lynx-eyed officials, viz., the Inspectors of Income Tax.

The errors that we generally have to look for may be classified under four headings:—

(1) Errors of omission.
(2) Errors of commission.
(3) Errors of principle.
(4) Compensating errors.

I am not going into any details about these, because I am sure you must all be familiar with the different classes. Of course, the errors of principle are the most important, because, as we are so often asked to certify accounts for income tax purposes, if you pass capital items which have been debited to profit and loss, you are aiding and abetting the trader, or whoever it may be, in reducing the amount of his liability to tax. On the other hand, if you pass errors of principle consisting of charging revenue items to capital—which will probably only arise in the case of a company—you may then be approving the payment of a dividend out of capital, because obviously that is done in order to augment the profits shown by the accounts.

We always divide audits into two main classes, *i.e.*, the final audit and the continuous audit. I do not think many people will have much to say against the continuous audit; everything being in favour of this. Of course, the ideal would be to have a continuous audit and then a final one at the end, but as a rule people are not prepared to pay the necessary fees. The obvious advantages of a continuous audit are that errors, either of principle, omission, or commission, are more quickly discovered and corrected; and the audit is completed much sooner after the close of the financial year, so that you can file

your annual accounts under the Companies Act; and, what is a very important point sometimes, certain companies are entitled to get a return of income tax. Insurance and trust companies have what is called the "management expenses claim," and the sooner they get in their copy of the accounts the sooner they can get their money back. I think in our own company we got back last year over a million sterling for tax which had been deducted at source from the income on investments. Well, if we had been six months in getting out the final accounts we would have had to wait six months to get that million pounds. The Inland Revenue do *not* allow you interest on amounts of income tax that you are claiming as a rebate from them, so this emphasises one very great advantage of a continuous audit.

I think the second great advantage is the moral check on the staff. If a member of the staff knows that the auditor may drop in at any time, he is going to hesitate very much before he starts juggling with the petty cash or the cash book. If he knows that there will be no examination of the cash for a whole year, he may probably just temporarily borrow £10 to put something on the Cesarewitch, hoping if he wins that he will be able to pay it back, and if he loses that he will be able to borrow a little more for the next race. That is usually how defalcations arise. I shall have a little more to say about that in a moment.

The only disadvantages that can be urged in connection with a continuous audit are these. Some people suggest there is a possibility that figures may be altered after being passed by the auditor. That objection should be overcome by the audit clerk making notes of any alterations he has passed and putting some special tick against them. Another objection that is sometimes raised is that the auditor may lose the thread of the audit, whereas in a final audit he goes straight through and finishes it. But I think if you have a proper system of audit notebook there is not much chance of that happening.

When you are taking on a new audit, the question sometimes arises as to how far it is necessary to go into the work of your predecessors. I do not think that there is anything necessary to be done there. All you want to see is that there was a balance sheet which was properly certified by some competent auditor, and you would be justified in accepting those accounts. The enquiries that we should put upon undertaking a new audit may be summarised as follows:—

(*a*) The system of dealing with cash and remittances received through the post. This is a very important point, and it should be seen that all cheques received, if they are not crossed, should be at once crossed and marked "not negotiable" and also the name of your clients' bank inserted in the crossing.

(*b*) Enquire whether the receiving cashier is allowed to make payments out of cash received. If he is, you should try and insist that that system be stopped at once, because it is a very dangerous practice. When you are enquiring as to internal check, look out for the weakest link. If you find that the receiving cashier is also posting the cash received to the ledger, both of those practices are very bad in principle and give great opportunities for misappropriation or embezzling money that is paid to him. A cashier may have £10 handed to him. He puts £5 in his pocket and the other £5 in the till. If he is responsible for posting the cash book, all he has to do is to post £5 to credit of the customer's account and credit £5 as discount, bad debt, or allowances, and probably the fraud will never come to light. You should therefore concentrate on any such weak link in the chain of internal check.

(*c*) You should enquire, also, as to the system of keeping the petty cash. That is always important, and you should insist on the Impress system being adopted.

(*d*) Enquire carefully as to the method of making up wages sheets and who is responsible for authorising same. All wages sheets should go through as many hands as possible, and under no circumstances should the person who makes out the sheet be allowed to pay the wages. Where you get a combination of duties like that, it is a point that you should concentrate upon, because there may be trouble there.

(*e*) Another point, which is very important and may seem perhaps to you rather curious, is this: I suggest that you should enquire if every man takes his holidays, and whether he takes them in bulk or day by day. If he takes them a day at a time I should at once be suspicious about that man. I heard of a case some time ago where a man never took his fortnight's holiday as he should have done. He said, "No, I cannot afford it. I am only going to take a day at a time." He was therefore never away except for a Saturday or a Monday. Unfortunately for him, he caught scarlet fever and had to be away for six weeks. I may mention that this man was a cashier and he was in the habit of receiving premiums over the counter, and instead of putting the money into the till and entering it in the cash book, he put the money in his pocket. Now, every person who is insured has 30 days of grace within which to pay his premium, and so long as that period was not exceeded, the insured person, having got his receipt, did not worry. But when this cashier was away for six weeks, the 30 days elapsed, and a number of lapsed notices were sent out to people who actually held their receipts. This, of course, led to the discovery of the fraud. Over and over again defalcations have been discovered during a person's illness or during holidays.

Then with regard to the manipulation of accounts, which generally fall into one of the following categories:—The entering of a smaller sum in the cash book than that actually received, and either posting the cash as shown by the cash book and writing off the difference to allowances, rebates or bad debts, or posting the correct amount and making some error in the sales day book to compensate for the difference. That, of course, could not be done if, when the vouchers were audited, it was insisted that the invoices should be attached to the vouchers, so that the auditor could cancel both the voucher and the invoice at the same time. When that is done the invoice cannot be presented again with another cheque later on.

False entries on wage sheets in respect of non-existent workmen, or for workmen who have died or left the service of the firm; misappropriation of petty cash and misappropriation of goods. You must see that there is a good system of dealing with stock. The well-known "bin" system is the best. That system is applied very largely in manufacturing businesses, and they have a card which applies to each class of commodity, ruled in three columns. The balance brought forward from the last stocktaking is put in the first column and purchases are added; then, when the foreman wants materials he sends down a chit and, whatever the article or quantity may be, it is entered in a second column; the balance is always extracted and entered in the third column. That system makes stocktaking easy, and it also provides a very useful check for the people who are responsible for buying.

As regards the misappropriation of goods, I heard of a curious case the other day from a friend who is in the glass trade. He said, "There was a dear old chap who had been in the firm about 45 years. He is over 60, and he has been foreman for a long time. I have always

treated him more as a friend than a workman. But as I was going out the other night I slapped him on the shoulder and said 'Good night, Bill,' and to my amazement there was a sudden crash and a fall of glass on the pavement. He had been walking off with a nice piece of plate glass, and this had been going on for I do not know how long, and he was making additional income in that way." That is an instance to show how goods are sometimes purloined.

The next thing I want to suggest is the audit by comparisons. You will find in the course of auditing that very often you can get most useful information which throws a new light perhaps on the accounts by comparing various items with previous trading periods, or with the accounts, if you can get them, of other firms in a similar trade. Ascertain, if possible, the percentage of various items of expenditure to turnover, and the percentage of all the items in the Profit and Loss account to the turnover. That very often puts you on the track of discovering something which you would never arrive at unless you had compared those percentages with the percentages of previous periods.

I want to deal now with the liability of auditors. This may fall under four different headings, viz :—

(1) Liability to be held responsible for any errors or defalcations which by reason of negligence on the part of the auditor have not been discovered, and to make good any damage resulting from such negligence.

(2) Liability to be held an officer of the company under sect. 365 of the Companies Act, and as such to be liable in the event of winding up to contribute to the company any loss occasioned by misfeasance or breach of trust on his part.

(3) Liability to fine, imprisonment, or both, under the Companies Act if wilfully making, in any report, balance sheet or other document, a statement false in any material point, knowing it to be false.

(4) A similar liability under sect. 84 of the Larceny Act, 1861.

Of course, the new Act has brought in many alterations, and we shall not have time this evening to go through the whole of the Act, but I do very strongly recommend all of you to get Mr. Strachan's brochure on "The Changes in the Company Law." It epitomises in a useful form all changes in the law affecting not only auditors but Directors and shareholders.

There is one important case I want to mention here, viz, the *City Equitable* case. You will remember probably that in that case the auditors were relieved from their liability by reason of there being a clause in the company's Articles of Association to the effect that unless it could be shown that an officer, director or other person connected with the company had been guilty of GROSS negligence, they would be indemnified for any loss that might occur through their *ordinary* negligence. The main question, therefore in the *City Equitable* case was, were the auditors guilty of negligence or *gross* negligence? It was held, finally, that they were guilty of negligence, but not of gross negligence, and therefore, under these Articles of Association, they got off without any penalty. Had they been held liable for gross negligence, the probability is that they would have been ruined, as their liability would have been enormous, probably running into hundreds of thousands of pounds.

That case had, no doubt, a very great bearing on sect. 152 of the new Companies Act, which provides that in future no article introduced into a company's Articles of Association or any contract shall operate to indemnify an auditor or other officer from any liability which may arise as a result of their default or negligence. It does certainly still give an auditor a possibility of claiming indemnity; if an action is brought against him for negligence and he defends it in the Courts and is found to be innocent, then the Act permits the company to indemnify him for the expenses of the action; but what happened in the *City Equitable* case could not possibly happen again.

I want to refer very briefly to some of the sections of the new Companies Act. It is rather curious that before the new Act came into operation, although there were many provisions as to auditing, there was no provision really for keeping accounts. There was merely a Common Law liability upon the Directors acting in a fiduciary position, or as agents to furnish the beneficiaries or shareholders with accounts. It is always the first duty of an agent or trustee to submit accounts to his principals. But the new Act provides that proper books of account must be kept, and proper books are referred to under the liquidation section of the Act; they are the same books which must be kept by a person who has been bankrupt once; if he is made bankrupt a second time then he has committed an offence if he has not kept "proper books" of account, as provided by the Act.

Sect. 123 provides that within eighteen months after incorporation, and subsequently every twelve months, the directors must submit to the company in general meeting a Profit and Loss Account, or if it is a non-trading company, then an Income and Expenditure Account for the period made up to nine months before the meeting. If, however, the company is carrying on business abroad, a period of twelve months is allowed, but either of those two periods may be altered or extended by the Board of Trade. Although perhaps it is not altogether the duty of an auditor to see that this is carried out, I think if that period were exceeded it would be his duty to report it to the shareholders, or to insist that the directors should carry out the provisions of the Act. Of course, the directors are liable for considerable penalties, and there have been one or two cases in the Courts since the Companies Act came in dealing with this offence.

I want you to notice, too, that the *Profit and Loss* Account must be put before the shareholders in general meeting, but there does not seem to be any provision in the Act that the Profit and Loss Account need be *circulated* to all the shareholders. It must be there for inspection. Unfortunately the Act did not say what the Profit and Loss Account must contain; the way in which many companies, since the new Act came into force, have satisfied themselves that they are carrying out the provisions of the Act is, I think, very unsatisfactory indeed. They give the same information as formerly—which is as little as they possibly can give!—merely, perhaps, adding the item which they are now bound to show, viz, the amount paid to the directors, by way of remuneration fees or other emoluments (not including salary paid as managing director). Some have interpreted the Act in the spirit in which it was intended, namely, that it should be a fairly full and explanatory account which would really give some information to the shareholders.

Then notice that the auditors' report must now actually be *attached* to the accounts; formerly it merely had to be read at the meeting, or placed before the meeting, and providing it was referred to in the accounts, that was sufficient. The directors must now give a report themselves as to the state of affairs of the company, the amount, if any, that they recommend to be paid as dividend, and any amount which it is proposed to carry to general reserve or reserve account. Here, again, there

is a fairly heavy penalty on directors failing to give this information.

The new Act has practically done away with that pernicious practice of lumping assets together; in future, fixed and floating assets must be shown separately, and also items such as discounts on debentures or on shares, preliminary expenses, goodwill, and shares in and loans to subsidiary companies must be shown separately on the balance sheet. That rather tends to put a check on that window dressing which I know our President is so very much against; in one of his addresses a little while back, which appeared in our magazine, I noticed that he objected very strongly to this practice. In the past a parent company might lend money to a subsidiary in order to give it a bank balance at the end of the year, and that liability to the parent company would be shown simply among the creditors on the liabilities side of the balance sheet of the subsidiary company. Now, however, it will have to be shown separately. Similarly, if a parent company borrows from a subsidiary company, the loan will have to be shown separately. It is your duty to see that these things are properly shown. If they are not, you must report the omission to the shareholders at the annual meeting.

A very important additional power has been given to auditors under the new Act, *i.e.*, that an auditor is now entitled to attend every meeting of shareholders at which accounts are to be presented which have passed through his hands. Formerly, if the directors did not ask him to attend the meeting, the only way he could get admission to a meeting was by becoming a shareholder himself, and I have known cases where auditors became shareholders for that sole reason.

Again, you must see that a holding company states if any provision is made in its accounts for the losses of its subsidiaries, and also how far the losses of subsidiary companies have been taken into account by the directors of the holding company in arriving at its profit or loss. And this is also very important; in the event of the auditors of a subsidiary company not being able to give a *clean* certificate—that is to say, if they have to qualify their report in any way—then the report which is attached to the balance sheet of the holding company must reiterate the qualification, whatever it may be.

An examiner might ask you, what is a subsidiary company? A subsidiary company is one where the parent company holds more than 50 per cent. of the shares, or has more than 50 per cent. of the voting power, or where the holding company has power to appoint a majority of the Directors, either directly or indirectly.

Another important point is to see that no loans to Directors are included under sundry debtors. That is an obligation not, perhaps, directly placed upon you under the Act, but it is one of the things you have to look out for very carefully, because in the past such loans have been camouflaged under the item of sundry debtors.

Where any commission has been paid in respect of shares or debentures issued, sect. 44 says that they must be shown separately on the balance sheet. Separate items have also to be shown under sect. 45 in respect to the aggregate amounts of outstanding loans made to trustees for the purpose of purchasing shares in a company to be held for the benefit of employees. Directors may have a scheme by which they wish to give their staff an interest in the business of the company, and instead of actually transferring shares to them or letting them buy shares, they transfer a number of shares to a trustee, who holds the shares on behalf of the employees, and any dividends received on those shares are paid away in the form of bonus to the employees.

Sect. 132 is, after all, the most important section of the new Act referring to auditors; you will remember that an auditor or auditors must be appointed by the Company at each general meeting to hold office until the next annual general meeting; if no such appointment is made, any member may apply to the Board of Trade to appoint an auditor for the current year. No person other than the retiring auditor can be nominated unless seven days' notice has been given to a retiring auditor and fourteen days' notice has been given to the company that some person other than the retiring auditor is to be nominated. Should the directors fail to exercise their powers of appointment, the company may do so in general meeting, in which case the directors' power of appointment will cease. Casual vacancies may be filled by Directors. The auditor's remuneration is fixed by the body appointing him, *i.e.*, either the company, the Directors, or the Board of Trade.

Sect. 133 is important, because it places certain disqualifications upon certain persons acting as auditors. A director or officer of the company is forbidden to act, and except in the case of a *private* company, a person who is a partner of or in the employment of an officer of a company cannot act; and in any case, a body corporate is not allowed to act. The Act in general seems to be against a corporate body acting in any official capacity, for neither the office of liquidator nor that of receiver may be held by a corporate body.

Sect. 134 gives the rights and duties of auditors and makes no change in the old Act, except the additional right that I mentioned just now of attending the annual meeting. Under the old Act they had the right of access to all books and vouchers, the right to demand all explanations and enquire fully into the concern and get any information they required from the directors.

The next point—and I think this is one of the most important—is found in the Fourth Schedule. You will remember that this Act consists of something like 380 sections and about twelve schedules. There is a point in the Fourth Schedule, Part 2, which might possibly be overlooked if you were studying the law from the Act itself; and I want to emphasise this fact, because I fancy there might be an examination question upon it. New obligations are imposed with regard to the issue of a *prospectus*, and a report by the auditors being required respecting the profits of the company for each of the three financial years immediately preceding the issue of the prospectus, and also the rates of dividend, if any, paid by the company in respect of each class of its shares during those three years, and also particulars of each class of share upon which no dividend has been paid.

It was a disgraceful condition of affairs in the past—that accountants were asked to give certificates of *average* profits. Obviously that was with a view of defrauding and misleading the public, because no business which could show rising profits would ever want a certificate of average profits given. So if you have anything to do with a certificate in a prospectus you must give particulars with regard to the three preceding years.

A further report is required from the accountants named in the prospectus, who must report as to the profits made during the same period in respect of any business which is being *purchased* by a company out of the proceeds of the issue of shares or debentures. Here again no average profits must be certified.

There is also a rather important point with regard to the statutory report of a company, *i.e.*, under sect. 113, the old Act provided for an abstract of receipts and payments in respect of CAPITAL only to be made. Under

the new Act it is now necessary for an abstract of *all* receipts and payments to be given in the statutory report, *i.e.*, both revenue and capital.

There are one or two cases that I want to refer to; for instance, the duties and obligations of an auditor as they were outlined in the *Kingston Cotton Mills* case. Judge Lindley there gave a very learned and interesting decision. He said, "Auditors, in my opinion, are bound to see what exceptional duties, if any, are cast upon them by the Articles of the company whose accounts they are called upon to audit—ignorance of the Articles, and of exceptional duties imposed by them would not afford any legal justification for not observing them." On taking up a new company audit, the first things you must give your close attention to, then, are the Memorandum and Articles of Association, because it would never do to plead in a Court that you did not know certain obligations were placed upon you because you had not studied the Articles or the Memorandum.

He went on to say, "If audited balance sheets do not show the true financial position of the company and damage results, the onus is on the auditor to show that this is not the result of any breach of duty on his part." That last remark comes from a case known as *Republic of Bolivia Syndicate.*

Another point I want to call your attention to is that of "secret reserves." An auditor is very often questioned by directors as to his opinion with regard to these—and sometimes an examiner wants to know what your opinion is. Do not sit on the fence and say it might be this, or it might be that; even if you take up a position diametrically opposed to the examiner's own views, if you can justify your contention he will probably give you as good marks as if your opinion expressed his own.

First of all, are you justified in signing a balance sheet which contains secret reserves, as being a full and fair balance sheet and as showing the true state of the company as shown by the books? Technically it is as shown by the books, because the secret reserves have all been provided by over-depreciation of assets, but an auditor can always satisfy himself if, where there are secret reserves, he reports it to the shareholders if he thinks fit.

There was a very well known case which dealt with that matter, viz, *Newton* v. *Birmingham Small Arms Company, Limited.* There the directors said to the auditors in effect, "You must not tell the shareholders anything about the secret reserves," and apparently the auditors wanted to report those reserves to the shareholders, and they brought an action in Court seeking an injunction against the directors from preventing them from making a report, and it was held that if the auditors wished to report secret reserves they may do so.

Are you really treating the shareholders properly by withholding that information? If a company has made profits, surely it is only equitable that, after making reasonable reserves, the existing shareholders should be given the benefit of such profits. We all know that it is quite usual to make reserves for the equalisation of dividends. Where that is the case, why not say so? Why hide it? There is always the possibility of anybody "in the know" manipulating share values in the market. They might say to themselves, "We have made enough profit this year to pay 15 per cent.; we have only in the past been paying 5 per cent., so that instead of declaring a dividend this year we will hold it over till next year and then declare a bumper dividend." I do not suggest that that *would* be done, but merely that there is that possibility.

Another thing is that it does give the directors the opportunity of covering up any rather hazardous business that they might be tempted to indulge in. They may say, "This looks a good proposition; if it comes off it will be good for the company, but if not we can write it off against that secret reserve." There is always that possibility. Personally, therefore, I suggest an attitude antagonistic to secret reserves. Legally a company is not bound to show a balance sheet "as *good* as it might be," but it must show it as "*bad as it is.*"

Then the question of "interim dividends." One is often asked as auditor for advice as to payment of interim dividends; it is a very dangerous practice to advise interim dividends unless there is a sufficient carry-over from the previous year's profit and loss account to more than cover the amount proposed to be paid. It may be fairly safe to pay an interim dividend on *Preference* shares, but personally I would never advise a company to pay an interim dividend on ordinary shares; because you never know which way trade may be going. There may be a slump in raw material, or a strike, and whereas accounts might show a good profit for the first half-year, the whole of this might disappear in the second half-year, and it might result in the company having paid a dividend out of capital. So I should always take rather a conservative view if I were asked to make any suggestion with regard to interim dividends.

Then I want to remind you of another case—the *London Oil Storage* case—with regard to the examination of petty cash. Whenever you are examining petty cash, do not be satisfied with merely seeing that the balance brought down in the book is the correct amount. In the *London Oil Storage* case a balance of £760 was shown on the balance sheet as "cash in hand," and the auditors passed it without reference at all to the cash box. As a matter of fact, the actual balance in the cash box was £30. Obviously there was negligence on the part of the auditor, but the Court held that there was also contributory negligence on the part of the directors in allowing so much money to be in the hands of the petty cashier. The auditor, therefore, got off with a liability of only five guineas. Always count the cash in the petty cash box.

In another case—*Wilde and Others* v. *Cape & Dalgleish*—the auditors failed to examine the bank pass book. Never examine any accounts without an examination of the pass book against the cash book.

Mr. G. S. Pitt, one of our ex-Presidents, made a very valuable suggestion some time ago. He said he would like to have all balance sheets which are to be examined by auditors submitted to them at least a fortnight or three weeks before they need signature. He said there is a tendency for the printed accounts which require a signature to be placed in the hands of the auditors about five minutes before they are wanted, and the auditors have not got time to go through them very carefully. Perhaps the auditor relies on somebody else who has examined the accounts, and he signs them before he has made himself conversant with all the details. I think Mr. Pitt's suggestion is a very sound one.

I was going to say a few words on Continental audits, but I see my time is up. There is just one point I might mention. I read the other day that during the course of an audit which was taking place at one of the Oxford colleges a disastrous fire occurred in the kitchen. It was found to be due to the Warden and Fellows of the college "cooking the accounts." (Laughter.)

In conclusion, I want to quote Lord Lindley again in the *London and General Bank* case. He said: "It is no part of an auditor's duty to give advice, either to the directors

or shareholders, as to what they *ought* to do. An auditor has nothing to do with the prudence or imprudence of making loans without security. It is nothing to him whether the business of a company is conducted prudently or imprudently, profitably or unprofitably. It is nothing to him whether the dividends are properly or improperly declared, provided he discharges his own duties to the shareholders. His business is to ascertain and state the true financial position of the company at the time of the audit, and his duty is confined to that. But then comes the question: How is he to ascertain that position? The answer is, by examining the books of the company. But he does not discharge his duties by doing this without enquiry and without taking any trouble to see that the books themselves show the company's true position. He must take reasonable care to ascertain that they do so. Unless he does this, his audit will be worse than an idle farce. Assuming the books to be so kept as to show the true position of the company, the auditor has to frame a balance sheet showing the position is according to the books, and to certify that the balance sheet correct in that sense. . . . An auditor, however, is not bound to do more than exercise reasonable care and skill in making enquiries and investigations. He is not an insurer. What is reasonable care in any particular case must depend upon the circumstances of that case. Where there is nothing to excite suspicion, very little enquiry will be reasonably sufficient, and in practice I believe business men select a few cases at haphazard, see that they are right and assume that others like them are correct also. Where suspicion is aroused more care is obviously necessary."

Finally, I want to remind you of a few words that Sir John Simon said a little while ago when addressing accountants. He was asked to define a profession, and he said that a profession essentially involves this: that it is based on preliminary study, training, and, it may be, examination; secondly, that the profits that may be made from its pursuit do not primarily depend upon the command of great quantities of capital; thirdly, and most important of all, it is a pursuit which is followed not solely as a livelihood but always subject to over-riding duties prescribed by a code of professional honour, involving in an especial degree the strict observance of confidences, in which the work that we do must be rendered to our clients without stint in proportion to our clients' *needs* rather than in proportion to the *reward* which we receive.

Now I cannot help feeling that if we set up for ourselves such a standard as this and conscientiously follow it right through, we shall have no fear when in the hereafter we are called upon to produce our own balance sheets and profit and loss accounts to the Great Auditor.

Discussion

Mr. W. N. R. DEAN, Incorporated Accountant: Mr. Grainger, in his lecture, has referred several times to the examinations, and I think he has rather given the impression that there is something very terrible in them. Well, I have this year had the pleasure of passing my Final, and I should like to say this, that they are not nearly so bad as they seem. If you can face the examination, not with the intention of passing it, but with the thought that you have already passed it and that it is over and done with, you are more than half way through it. On the actual subject of the lecture, namely Auditors, there is only one point I should like to mention and that is as regards Petty Cash. Some years ago I had a case where, included in the balance of Petty Cash in hand, were about ten vouchers from the Managing Director and the Works Manager for advances made to them in the form of loans. They were quite in order, as these gentlemen had authority to have the money; it amounted in all to about £70. They were good receipts for the money, bearing proper signatures. The auditor in charge gave instructions that those receipts should be taken (for verification) to the gentlemen who had given them. The first one was extremely indignant that a receipt given by him should be questioned, until he found that there were four of them and that he only owed £5. The other one was also indignant when he found receipts for far more than the sum he owed. As a matter of fact, they owed between them about £15. The Petty Cashier had received the balance and had forgotten all about it. People who have authority to borrow money, and have given receipts for it, should be asked at the time of the audit to verify their receipts. I do not think I have anything further to add, because Mr. Grainger was so extremely lucid that it was impossible for anyone to fail to understand him.

Mr. GRAINGER: With regard to Mr. Dean's remarks, I think under the existing law those loans would have to appear in the balance sheet.

Mr. J. H. BARNET: Mr. Grainger, in the course of his interesting discourse, mentioned the fact that it would be of great advantage if auditors attended the Annual General Meeting, but I think that it is not such a great advantage unless the Auditor can make any statements he wishes concerning the accounts. I would like to ask Mr. Grainger if the Auditor is restricted in that way.

Mr. GRAINGER: Legally, he would be justified, in my opinion, in making any statements he chose; but I think counsel's opinion has been taken on that point and the advice given was that he should obtain the sanction of the Directors to make statements before doing so. The Auditor would probably find, however, that some other Auditor might be employed subsequently if his remarks were too critical with regard to the conduct of the Directors! One must use tact, as I have suggested, but legally I think he would be perfectly justified in doing so.

Mr. T. ROGERS, Incorporated Accountant: With regard to the question of the tact of the Auditor, to which the Lecturer referred early in his lecture, I suppose the Audit Clerk would be wise to make notes of the things about which he has any doubt in his mind, and refer them to the Principal rather than take the initiative himself. If his criticism proved to be unfounded he might get into trouble all the way round, but if there were genuine grounds for his criticism it would be better that they should go through the Principal or the Managing Clerk. It seems to me that the Audit Clerk who does the work is in rather a difficult position. The Principal would think perhaps, that he was bothering about unnecessary details, but it would be well if the Audit Clerk, for his own safety made notes in the audit notebook, so that in the event of trouble arising and the Principal ejaculating, "Why did you not tell me?" the Audit Clerk could point to the note as a confirmation that he actually did bring it to his notice. Not forgetting, of course, that the Lecturer said we were not to be too bumptious, which appears to be a common tendency with articled audit clerks.

Mr. GRAINGER: I agree entirely with what you have said. Of course, fools often rush in where angels fear to tread, and junior assistants to a principal very often assume a dignity and an importance which nobody else attaches to them, and they sometimes attempt to advise the clients. I heartily agree with you that that is most tactless. Any suggestion that they have to make should be made through the managing clerk. No official of a company cares to be talked to by an articled clerk if he has done something that was inadvisable. I am perfectly certain that all qualified accountants and managing clerks would appreciate any suggestion that was common sense and technically correct coming from a junior, because it would prove that the youngster was really interested in his work and doing his best to understand and apply the technical knowledge that he possesses.

Mr. W. D. MENZIES, Incorporated Accountant: Although Mr. Grainger ended on a rather more cheerful note than he began with, I certainly got the impression about two-thirds of the way through the lecture that

the best thing we could do was to go and commit suicide instead of remaining or trying to become members of this arduous profession. I would suggest that in his next lecture, Mr. Grainger should speak of the consolations of Auditors, if there are any. There is just one point I should like to mention. The phrase, "otherwise than by operation of the law" has always seemed a mystery to me by reason of the fact that surely there is no security unless it is by operation of the law. I suppose it refers to equitable mortgages in which there is an agreement to enter into a legal mortgage. Then on the question of the Directors' report which must be attached to the accounts; this applies to private as well as public companies, and I think a lot of people must be in a difficulty. Under the present Companies Act a directors' report must be attached to the accounts. What must it contain? It often falls on the poor Auditor to draft the Directors' report. Is a report to the effect that the Directors consider that the accounts are self-explanatory sufficient to meet the case? There is one other point. I notice that Mr. Grainger said that the principle which governs the relationship between Directors and their shareholders was that of agent and principal. I have it at the back of my head that I was taught that the relationship was that of a trustee to a *cestui que trust*, but that is perhaps taking rather a strict view of the situation.

Mr. GRAINGER: In reply to Mr. Menzies, I will take his last point first. It is perfectly true that the Directors are in a fiduciary position, but there is no getting away from the fact that they are acting as agents for the whole body of the shareholders in the conduct of the business—I mean in Common Law. I have always understood that that was the reason for calling for proper accounts. They are also acting as trustees, and it is the duty of a trustee to render accounts to beneficiaries if required to do so. With regard to the Director's report, all that the Act requires is that the Directors should say something about the financial position of the company, and the only specific information required is that they have to say what dividend they recommend and what they are proposing to transfer to reserve. Anything else that they like to say is left entirely to their discretion by the Act. Then any of the company's liabilities which are charged "otherwise than by operation of the law" on the assets of a company, I think merely refers to a case where you might give a bank a lien on your stock. There are certain mortgages and charges which require registration as, for example, a mortgage or charge on the uncalled capital, or on the land, buildings or undertaking, or on the book debts, and a charge which, in the case of a private individual, would require registration as a Bill of Sale. Three new ones come in under the Act, viz., a charge on any portion of a ship, a charge on unpaid calls, and any charge on copyright or patents, and we, as Auditors, have to see that they are entered in the Register of Mortgages and Charges kept by the company and, further, that copies of these entries are forwarded to Somerset House. I think that this "charged otherwise than by operation of law" refers to a general lien that might be given, which does not fall within the category of those requiring to be registered. I note that the point has been raised over and over again in the *Accountant*, and nobody seems to have arrived at a really satisfactory explanation.

Mr. N. BENNINGTON: The Lecturer mentioned that he did not agree with the necessity of having secret reserves. Personally, I think the information should be given to the shareholders if there are such reserves. Banks and insurance companies often do not place any value on buildings in their balance sheets. I should like to know what the Lecturer's opinion is on that. Would he, as an Auditor, require a value to be placed on the buildings, or would he merely state that no value had been given to them? I imagine it would be very difficult in some cases to arrive at the value of these buildings.

Mr. GRAINGER: Mr. Bennington is raising a point on the question of secret reserves—as to what happens in the case of, say, the Bank of England and insurance companies who do not disclose certain assets. Well, everybody knows that all banks have secret reserves; they know that banks create secret reserves in order to provide for the contingency of some severe Stock Exchange slump or something which might entail a run on the bank. If they have written down the value of their securities to 15 or 20 per cent. below Stock Exchange values and a slump comes, they may be able to restore confidence among their depositors by saying, "Our securities are even now valued in our books at a lower figure than they are quoted at on the Stock Exchange." That would be very useful. With regard to the insurance companies, I do not think, as a general rule, they make a practice of creating secret reserves. Most of the companies give a full valuation of their Stock Exchange securities, any secret reserve that they might have would be possibly in the actuarial valuation. The latter might not perhaps disclose quite fully the amount of the surplus. Mr. Bennington also raised the point of the value of buildings. I take it he had in his mind companies having multiple premises. It might be very difficult to estimate the value of those premises, and possibly they might have written them off altogether. Well, let them write them off, but I say they should tell the shareholders, be quite frank about it. If they want to withhold certain profits why not say frankly on the balance sheet, "we have made so much profit but we are not going to distribute it. We have used it for writing off our properties, or we are retaining it for the purpose of equalising dividends." This is the line I suggest. Whether they distribute it or not, it does not matter so long as it is shown on the balance sheet. You see, it would very often affect the Stock Exchange value of the shares. You are therefore, not only depriving the shareholder of his dividend, but also of the appreciation of capital value on the Stock Exchange, because had the dividend been increased it would immediately have been reflected on the Stock Exchange quotation. Therefore you are not giving the shareholders what they are entitled to, first in the shape of increased dividend, and secondly, in the shape of increased value.

Mr. W. N. R. DEAN: Might I refer again to the question of "otherwise than by operation of law"? I think the Act states that where a liability is secured on an asset otherwise than by operation of law, that fact must be stated on the balance sheet. If a mortgage is taken on a property you must state that fact, because the security that arises is by operation of a Deed. What exactly is a security otherwise than by operation of law? It seems to me that it is where a security arises purely by reason of some existent law and not be reason of a Deed which the law sanctions.

Mr. GRAINGER: If it is a mortgage, you cannot get a mortgage without operation of law, and it must be registered. A mortgage, therefore, would never come under the heading that is suggested in the Act. That must be registered at Somerset House and appear in the company's Register of Mortgages and Charges. What I understand is that it is some asset which is charged by operation of a person and not by operation of law. I believe that is the meaning of it.

Mr. W. N. R. DEAN: Then it means that in the case of a mortgage you need not state that it is secured on the property at all?

Mr. GRAINGER: No, because that is secured by an operation of law, and anybody that is concerned can examine the Register of Charges and ascertain that fact. This is in order to avoid any assets of the company being charged without making the fact known.

Mr. S. E. STRAKER: On that point, I think it would be well if we could clear the air a little. All legal charges by or to a bank require registration, and it is very difficult to see exactly what is meant by "otherwise than by operation of law." The Lecturer has told us that he has seen in the *Accountant* and elsewhere that the difference is where it is chargeable by the action of a person, but even a Mortgage Deed requires the action of a person to enforce action under it. To me the whole thing is very involved and we do not appear to have got the position clear.

Mr. GRAINGER: I agree that it is very involved, but I still maintain that an ordinary mortgage, although it does require a physical act on the part of the person signing the Deed, is not contemplated in this particular section, because that is covered by what I have just said—it must be registered. It is only to get behind those necessary things which must be registered to avoid some other charge which is not known to the shareholders or to the other creditors. Supposing you said to a bank, "I will give you a lien on the stock; I cannot give you any Bills of Lading, but I will give you a personal lien upon it; I will be personally responsible. . ."

Mr. STRAKER: That becomes a legal charge and would have to be registered.

Mr. GRAINGER: Not unless you give a Bill of Sale.

Mr. DEAN: If it were not registered it would not be good against the creditors; it would not be a security at all.

Mr. GRAINGER: I think it might arise where you give some sort of collateral charge. It is very difficult, and I cannot hope to explain it. As I said, there has been a great deal of correspondence in the *Accountant*, and nobody seems to have given any satisfactory explanation of it. It will probably result in a law case before it is settled.

Mr. J. J. ELSDEN, Incorporated Accountant: I know a case in which a holding company has given security to its bank by a deposit of shares in subsidiaries with a memorandum of charge, and in that particular case I think counsel's opinion was taken—at least, the legal profession was consulted—and it was decided that the charge was not registerable.

Mr. GRAINGER: That is an example that is useful to us. That is one of the cases where it is not required under the Act to be registered.

Mr. STRAKER: On the other hand, I have had a case where a bank insisted that it should be registered.

Mr. GRAINGER: It is a question of difference in procedure, and creditors can adopt whichever plan they like.

Mr. D. E. GIBBS, Incorporated Accountant: Would it not come under that particular provision if a company held shares and gave as security a blank transfer of those shares? Does not that constitute a security "otherwise than by operation of law"?

Mr. GRAINGER: It is an equitable charge.

Mr. D. E. GIBBS, Incorporated Accountant: Then the holding company's accounts should state that it was given.

Mr. GRAINGER: Yes, I think that might be an example. The fundamental point is that the Act wants the shareholders and the creditors to know if any of the assets has any sort of lien upon it which is not registerable.

Mr. L. H. PLUMPTON, Incorporated Accountant: I should like to raise a point. Suppose, for example, a company's financial year ends on December 31st, and held its general meeting, say, in the following February, when the shareholders elected the Auditors for the ensuing year. The company went into liquidation in July of the same year. The Auditors have not had their fee paid for the previous year. Up to what point should the Auditors carry on with the work? If they were doing a continuous audit they might be going in every fortnight; would they have to do it up to the date of the liquidation?

Mr. GRAINGER: I think an arrangement under those circumstances would be come to between the liquidator of the company and the auditor. It is quite possible that the Auditor might be appointed liquidator, because he would be most conversant with the accounts. The liquidator would require the accounts made up to the date when he took over, because on that would be prepared the statement of affairs. He would require the books to be handed over to him ruled off and balanced at a certain date.

On the motion of Mr. E. M. GEORGE, seconded by Mr. T. B. SIMS, Mr. Grainger was warmly thanked for his lecture, and the usual vote of thanks was accorded the Chairman.

Manchester and District Society of Incorporated Accountants.

FORTY-FIFTH ANNIVERSARY DINNER.

The forty-fifth anniversary dinner of the Manchester and District Society of Incorporated Accountants was held at the Midland Hotel on February 16th.

Mr. JAS. A. HULME, F.S.A.A., the President, was in the chair, and there was a large and distinguished gathering, including, for the first time, ladies other than lady members. Among those present were: Councillor Lieut.-Col. Geo. Westcott, J.P. (representing the Rt. Hon. the Lord Mayor), His Worship the Mayor of Salford (Councillor J. W. Bloom, J.P.), Mr. Henry Morgan, F.S.A.A. (President, Parent Society), Mrs. Hulme, Councillor Mrs. Westcott (representing the Lady Mayoress), the Mayoress of Salford (Mrs. Bloom), Mr. T. D. Barlow, M.A. (President, Manchester Chamber of Commerce), Mr. F. S. Stancliffe, Solicitor (President, The Manchester Law Society), Mrs. Henry Morgan, Mr. Osborne Symonds (Agent, The Bank of England), Mr. H. H. Tomson (Town Clerk of Salford), Mr. Alexander A. Garrett (Secretary, Parent Society), Mr. G. W. Daniels, M.A. (Dean, Faculty of Commerce of Manchester University), Mr. John E. Bray (President, Institute of Municipal Treasurers and Accountants, City Treasurer, Manchester), Mr. N. J. Laski, M.A. (Barrister-at-Law), Mr. B. Mouat Jones, M.A. (Principal, Municipal College of Technology), Mr. E. O. Mosley, F.C.A. (President, Manchester Society of Chartered Accountants), Mr. A. N. Winder (Chairman, Manchester Stock Exchange), Mr. P. Forrester (Managing Director, Union Bank of Manchester), Mr. Henry L. Marsden, B.Com. (Principal, Municipal High School of Commerce), Mr. R. H. Isherwood (Chairman, Manchester Branch of the Chartered Institute of Secretaries), Mr. F. N. Walker (Manager, Midland Bank Limited), Mr. George Guest, LL.B. (Deputy Director of Education), Mr. T. G. Fletcher Robinson, F.A.I. (Chairman, Manchester and District Branch of the Auctioneers' and Estate Agents' Institute of the United Kingdom), Mr. Morris Diamond, LL.B. (Barrister-at-Law); and the following representatives of District Societies: Bradford: Mr. Thomas Hudson, Mr. H. Reynolds; Cumberland: Mr. R. Simpson-Duthie; Hull: Mr. G. A. Ridgway; Liverpool: Mr. Chas. M. Dolby; Newcastle-on-Tyne and District: Mr. J. Telfer; North Staffordshire District: Mr. D. H. Bates, Mr. J. Paterson Brodie; Notts, Leicester, Derby and Lincoln District: Mr. S. I. Wallis; Sheffield and District: Mr. Percy Toothill, Mr. J. W. Richardson; Yorkshire: Mr. Arthur France.

Mr. HULME, proposing the toast "The Cities of Manchester and Salford," said that both cities had much in common. Their interests, trade, and pursuits were identical. They had been flirting together for many years, but for reasons best known to themselves, an engagement had not ensued. The onlooker could see that very material advantages could be obtained by a working arrangement in such services as tramways, electricity, gas, fire brigade, &c. (Hear, hear.) The Ship Canal, which, on occasions, was claimed by both cities, had been the means of establishing many flourishing industries. Manchester and Salford goods were known the world over for quality. The Manchester Corporation was far and away the largest business and social enterprise in the city, employing about 30,000 men and women, and a debt of gratitude was owing to the members of the Council for carrying on many valuable departments. The Corporation's was the citizens' business, and they had to find the money to carry it on.

It was, therefore, lamentable that so small a proportion of electors went to the poll at election times. Personally, he would welcome an enactment which would impose a fine of £1 on every elector who did not vote, unless such elector could show just cause and impediment. Members of the City Council were doing their work under very trying circumstances, but the circumstances of to-day called for special measures, and the Corporation, like other businesses, did not claim to be so efficient that it could not be improved.

The Lord Mayor recently said that not enough business men took an interest in municipal affairs. Conditions of trade, along with heavy charges upon business, made it imperative that they should devote all their attention to their own business, but there were many successful commercial men who had the inclination to serve on the Council, yet could not afford the time. Something ought to be done to attract such men to the Council. Limited companies had no say in the city's expenditure. The Companies Act provided that a company should have an auditor. It should also provide that one or more directors were entitled to vote at municipal elections. (Hear, hear.) Continuing, Mr. Hulme mentioned that the Manchester and District Society had still two original members—Mr. F. Walmsley and Mr. A. E. Piggott. Mr. Walmsley, who was not well enough to attend that evening, was now in his eighty-third year. He had been a tower of strength to the Society, and had won the esteem and respect of his fellow-men. "I should like," added Mr. Hulme, "the congratulations of this assembly to be conveyed to Mr. Walmsley on his attaining his eighty-third year, and we hope he will be spared to us for many years yet. (Applause.) With regard to Mr. Piggott, he has been guide, philosopher, and friend to members of this Society since its formation, and given it yeoman service. He is on the way to realise an ambition—to be Secretary of this Society for fifty years. We hope he will have good health and, with the help of his son Halvor, will attain that distinction." (Applause.) Mr. Hulme read a letter from Sir James Martin congratulating the Society on its forty-fifth anniversary, and observing that services such as Mr. Piggott had rendered must be very rare in the annals of accountancy.

Councillor GEORGE WESTCOTT, O.B.E., J.P., a former Lord Mayor of Manchester, responded on behalf of the present Lord Mayor, who was in London at the Cotton Exhibition. Referring to the criticism of the Manchester City Council in connection with the rise in the rates, he said that it was a complicated matter. It was not so easily disposed of as some people might imagine. The President had referred to the fact that so few citizens would take the trouble to vote. "Personally, I think it is scandalous," added Councillor Westcott. He did not know whether electors who did not vote should be penalised, but something should be done. It would be a very good thing if the estimates over which so much had been said were prepared in September or October, instead of at this time of the year. It would then make people sit up and take notice. Another point on which he was keen was that more business men, professional men, and men of social standing should sit on the Council. He had approached some to that end, but was sorry that he had sometimes been met with insulting statements. The speaker concluded by appealing to Incorporated Accountants to come forward and offer themselves for membership of the City Council, where their services would be of considerable value.

The MAYOR OF SALFORD (Councillor J. W. Bloom, J.P.), who also responded, remarked, amid laughter, that he did not know anybody who wanted to pay rates or taxes. He realised that the times were very difficult, and in Salford they were doing their utmost to bring about the reduction of rates, and he must give credit to the exceedingly good accountants who had advised the Corporation Finance Committee.

Mr. F. S. STANCLIFFE (President of the Manchester Law Society) gave the toast, "The Society of Incorporated Accountants and Auditors." During his speech he congratulated the Society on the very great services they performed. He also spoke in praise of the *Incorporated Accountants' Journal*, which, he observed, was full of very interesting topics, and, speaking in all sincerity, he wished he had time to read it regularly. He noticed one article touched upon the question of limited companies having votes in municipal elections. It seemed to him that this was desirable and a matter of justice. He went on humorously to comment on the nature of balance sheets, expressing the hope that the Society would do something to make them plainer to men of ordinary mind like himself.

Mr. HENRY MORGAN (London) (President of the Society of Incorporated Accountants and Auditors) replied to the toast. After expressing his pleasure at being present, he said that he made no apology that he came from the haunts of the "money barons." He proceeded to a vigorous defence of the City of London against what he called the recent vituperous attacks upon it in the House of Commons, when unworthy motives had been ascribed to the City, which it was emphatically stated had endeavoured "to prevent plenty from reaching want." Mr. Morgan declared that in the present crisis, the bankers, heads of financial institutions, and industrialists of the City of London need not fear comparison from the point of view of capacity, integrity, and service to their country, with any political party or any Government of modern times. Continuing, Mr. Morgan said: "Of all our great cities, Manchester has figured most prominently in the history of our Society, and has contributed in a very great degree to its progress and the outstanding position which it enjoys in the accountancy profession. Manchester is the only city in the provinces which has given the Society during the 46 years since its formation more than one President, and I wish specially to refer to Mr. Frederic Walmsley, President from 1894 to 1898, and Mr. Harry Lloyd Price, President from 1907 to 1910. Mr. Walmsley was one of the original members in 1885, and a member of the first Council of the Society. It is a source of the greatest pleasure to all the members of the Council to be still receiving the active support of Mr. Walmsley, who is the Senior Past President of the Society, and whose particularly valuable and tactful work during many years as Chairman of the Disciplinary Committee is recognised throughout the Society. The death of Mr. Harry Lloyd Price at a comparatively early age was a heavy loss to our Society, but his brilliant qualities and leadership remain a memory and a living tradition within the Society. Mr. Lloyd Price was elected to the Council of the Society in 1896, and took an active part in the Conference held in Manchester in 1899. Our District Societies now constitute a most important feature of the organisation of the Society, and the splendid work they are doing and their energy and activity throughout the kingdom are having the result of promoting very materially the interests of the Society and its members. Manchester possesses the distinction that it is the oldest of all our District Societies. Formed in 1886, a year after the foundation of the Parent Society, it has a record of which its members are deservedly proud. The first reference in the printed records of the Society to the Manchester District Society is to be found in the *Incorporated Accountants' Journal* when, in September, 1889, the third annual

meeting and dinner were held. In connection with the Manchester District Society, I would like to refer to its Honorary Secretary, Mr. Arthur E. Piggott. (Applause.) Mr. Piggott became a member of the Council of the Society in 1887, and in that capacity, in a quiet and unostentatious manner, has rendered very signal service. It is, however, as Secretary of the Manchester District Society that he is best known amongst all our members. It is difficult to assess the value of the splendid work he has done, but its effect is to be seen in the fact that Manchester and District Society, with over 600 members, is easily the largest and most successful of our District Societies, and it is significant that, as will be seen by a reference to our Year Book, in Manchester itself we have no fewer than 272 Fellows and Associates, 110 more than there are in Birmingham, which comes second on the list of provincial cities. It is not surprising that Manchester should be a stronghold of the accountancy profession, for is it not the centre of the great cotton industry, an industry whose products for generations past have formed a greater part of our export trade than any other industry? Of all our great industrial areas, Lancashire was considered as being most solidly established and to have least to fear from foreign competition, yet to-day it must be admitted that of all our great industries there is none in such a serious state as the Lancashire cotton trade. It is a good augury that within the last few days, partly through the good offices of Lord Derby, a serious cotton dispute has come to an end, and during the course of to-day I have been for several hours in the company of one of the largest cotton manufacturers, and I was pleased to hear his opinion that the settlement of this dispute was likely to create an atmosphere of goodwill which would probably render much easier the settlement of many difficult problems still to be solved. Although it is certain the Lancashire cotton trade sooner or later will recover from the intense depression of the present time, it is equally certain that it will never again attain the dominating position it once occupied, If, therefore, Lancashire is to regain fully its past prosperity, it will be dependent to a large extent upon the establishment of new industries. The restoration of the depressed and establishment of new industries, however, will require big amounts of capital, and at the present time we have the extraordinary position that whilst deposits with banks, building societies, and financial institutions are at an exceptionally high figure, and that there is a strong demand for all investments of a gilt-edged character, it is exceedingly difficult to get anyone to put capital in industrial enterprise. The fact is that on the part of the investing public there is an utter lack of confidence at the moment in British industries. Is this to be wondered at when you consider the alarming and continuing increase in unemployment, the enormous growth of national and local expenditure, the higher rates of wages, relatively greatly in excess of most other countries which are our most serious competitors, the demands of labour which have the effect of seriously restricting output, the appalling loss of industrial wealth through the closing down or depreciation of factories, works, plant and machinery, and the manner in which investors in public companies have been exploited during the last two or three years? All these are reasons why the investing public will not risk their money in industrial enterprises, but, in my opinion, one of the chief reasons is the burden of and our system of taxation. In times like these people will not risk their money in trade or industry if, when a profit is made, they have to pay away from 25 to 50 per cent. in taxation, and when, on the other hand, a loss is incurred they have to bear the whole of it. . . . . The scale and incidence of taxation at the present time is destructive of all incentive for investors to invest their money in any industrial enterprise, and a cessation of the reckless public expenditure on social services and a reduction of taxation are conditions necessary for the restoration of confidence, without which there is little hope of overcoming the dangerous menace of unemployment, and of restoring to our country the prosperity of former times." (Applause.)

Mr. OSBORNE SYMONDS (Manchester) (Agent of the Bank of England) submitted the toast "Education and Industry." He remarked that education had been of very great assistance to industry in every way, but asked were we not overdoing it?

Mr. B. MOUAT JONES, D.S.O., M.A. (Principal of the Manchester Municipal College of Technology), in response, said that he thought the differences of opinion that arose upon the question Education and Industry, were due to mathematical causes. Business men dealt in commodities and in processes to which they could assign, with the help of Incorporated Accountants, certain definite sums where expenditure could be expressed in figures. Educationalists dealt in commodities which were not so susceptible to numerical expression, and he felt there were things of real value which could not be expressed at the moment in £ s. d. It was only on rare occasions that this could be done, but in the last few days he might state it had been disclosed that research work carried out at the Manchester College of Technology had had the effect of saving to industry 200,000 tons of coal per annum. In subsequent remarks, Mr. Mouat Jones emphasised the paramount importance of highly-trained men to industry. He observed that if leaders of industry had themselves to provide for the training of the personnel of their staffs, he thought they would immediately regard the cost as a first charge upon their resources.

Mr. T. B. BARLOW, M.A. (President of the Manchester Chamber of Commerce), who also responded, said that he refused to admit that manual occupations were any less desirable or honourable than others. If the function of modern education was to make people dissatisfied with their lot, then there was something wrong with education. In his younger days he used to think that the only real education was in the humanities, but he had now come to the conclusion that unless we had a scientific basis to our training we could do no good at all. He could see no future for this country unless industry and education were happily married.

The toast "Our Guests" having been felicitously proposed by Mr. JOSEPH TURNER, F.S.A.A., Vice-President, it was acknowledged by Mr. E. O. MOSLEY, President of the Manchester Society of Chartered Accountants, and Mr. J. FLETCHER ROBINSON, F.A.I., Chairman of the Manchester and District Branch of the Auctioneers' and Estate Agents' Institute. Mr. Mosley said that it was his privilege to represent the other Society—the big brother of the profession—and his presence there that night was evidence of the very good feeling which existed between the two Societies, and he prayed that it might be continued and developed, and as far as lay in his power it would be so. There was an attempt during the past year for a very big scheme which unfortunately fell through, but that did not say that these two great bodies could not co-operate and generally advance things. Certainly their aims and ideals were identical, and he hoped that with reasonable co-operation they might do some good for the community. (Applause.)

During the evening there was an excellent concert by the Garfield Orchestra, Mr. R. I. Stevenson, Mr. John Hughes, and Miss Dorothy M. Coulter.

Society of Incorporated Accountants in Ireland.

At the kind invitation of Mr. Robert Bell, F.S.A.A., Belfast, President of the Irish Branch of the Society, and Mrs. Bell, a reception and dance was given to the members of the Dublin Students' Society at Jury's Hotel, Dublin, on February 12th. Among those present were :—Mr. R. J. Kidney (President of the Students' Section of the Society) and Mrs. Kidney, Mr. A. J. Walkey (Secretary, Irish Branch) and Mrs. Walkey, Mr. A. H. and Mrs. Walkey, Mr. and Mrs. J. Malvern White, Mr. J. P. G. Doyle (Hon. Secretary), Miss Violet O'Kelly, Mr. J. G. Dowling, Miss M. Dowling, Mr. and Mrs. E. M. Forde, Mr. R. P. J. Smyth, Miss Rachael Murphy, Mr. R. A. Kidney, Miss C. O'Brien, Mr. M. Bell, Mr. J. Caulfield, Miss Flinn, Miss N. Macnamara, Mr. G. J. Moore, Mr. E. W. Hall, Mr. K. Weir, Miss Weir, Mr. R. W. Cashel, Mr. A. M. Grant, Mr. J. A. Cassidy, Mr. J. D. Woods, Mr. R. Mathews, Mr. W. B. Prescott, Mr. M. J. O'Malley, and Mr. and Mrs. T. R. Beddy.

The students of the Irish Branch are appreciative of the kind hospitality extended to them by Mr. and Mrs. Bell and of the opportunity given to them to meet together in this way.

Incorporated Accountants' Students' Society of London.

ANNUAL MEETING.

The Annual General Meeting of this Society was held at Incorporated Accountants' Hall on February 24th. In the absence of the President, Sir Stephen Killik, the chair was occupied by Mr. William Strachan, F.S.A.A. In moving the adoption of the report and accounts, Mr. Strachan called attention to the successes of the members of the Students' Society at the recent examinations, the first place in the Intermediate and Final examinations both in May and November last having been secured by them, as well as six other honours places. This, he said was a high tribute to the educational value of the Society, and he impressed upon the members the importance of attending the meetings regularly, from which he assured them they would, over a period of time, derive much valuable information which they could not gather from books. The report and accounts as set out below were unanimously adopted.

OFFICERS AND COMMITTEE.

Sir Stephen Killik, F.S.A.A., and Mr. G. Roby Pridie, F.S.A.A., were re-elected President and Vice-President respectively for the ensuing year, and the members of the Committee were also re-elected with the exception of Mr. Walter Holman, who had resigned, Mr. F. R. Witty being appointed to fill the vacancy. The Committee was accordingly constituted as follows:—Mr. W. Strachan, F.S.A.A., Mr. S. T. Morris, A.S.A.A., Mr. A. A. Garrett, M.A., B.Sc., Mr. M. J. Faulks, M.A., F.S.A.A., Mr. H. E. Colesworthy, A.S.A.A., A.C.A., Mr. C. E. Wakeling, A.S.A.A., Mr. W. D. Menzies, A.S.A.A., Mr. L. H. Plumpton, and Mr. F. R. Witty.

The other officers were re-elected as follows :—Hon. Treasurer, Mr. A. R. King Farlow ; Hon. Auditor, Mr. W. H. Payne ; Secretary, Mr. J. C. Fay.

ALTERATION OF BYE-LAWS.

A resolution was passed making two slight alterations in the Bye-Laws to give effect to the arrangements made with the newly formed Incorporated Accountants' London and District Society. The first was to add the words " and District " to the name of the Society so as to cover the Home Counties as well as London. The second was to provide for two additional members on the Committee as representatives of the London and District Society, who in turn will provide seats on their Committee for two representatives of the Students' Society.

40th Annual Report.

The Committee have pleasure in presenting their Fortieth Annual Report and Accounts for the year ended December 31st, 1930.

ACCOUNTS.

The accounts show a surplus for the year of £138 19s. 6d. The entrance fees amount to £95 15s., and the annual subscriptions to £481 7s. The Committee again desire to express their thanks to the Council of the Parent Society for their continued financial support.

MEMBERSHIP.

During the past year 383 new members were elected. At December 31st, 1930, there were 1,294 members on the roll, consisting of 168 Honorary Members in practice, 150 Honorary Members not in practice, and 976 Ordinary Members. The Committee regret to note that there is still a tendency for Student Members, upon qualifying, to cease to support the Students' Society. The Students' Society offers them valuable facilities, and it is hoped they will continue their membership.

REVIEW OF THE SOCIETY'S WORK FOR THE PAST YEAR.

The usual meetings were held during the Spring and Autumn Sessions, and lectures were delivered by members of the legal and the accountancy professions upon a variety of important subjects which come within the scope of the accountant's duties and practice.

The Society is greatly indebted to Mr. A. G. H. Dent, Mr. Maurice Share, B.A., Mr. Philip Vos, M.A., Mr. Ronald Staples, Editor of *Taxation*, Mr. A. W. Kiddy, City Editor of *The Morning Post*, and Mr. Hartley Withers, formerly Editor of *The Economist*, for the lectures kindly delivered by them to the members.

Certificates of Merit were awarded to three members of the Students' Society in the Final Examination, and seven Place Certificates in the Intermediate Examination.

The Committee wish to record their grateful thanks to the Council of the Parent Society for their permission to hold the Society's meetings in the Great Hall.

The following Lectures and Discussions were held during the Spring and Autumn Sessions :—

Spring, 1930—

" Graphic Methods in Business." By Mr. A. G. H. Dent, F.S.S.

" Deeds of Arrangement." By Mr. Maurice Share, B.A. (Oxon.), Barrister-at-Law.

" The Companies Act, 1929, as Affecting Liquidators." By Mr. C. A. Sales, LL.B., Incorporated Accountant.

" Fire Insurance." By Mr. William Nicholson, Incorporated Accountant.

" The National Balance Sheet." By Mr. A. W. Kiddy, City Editor of *The Morning Post*.

" Income Tax—Back Duty Cases." By Mr. Ronald Staples, Editor of *Taxation*.

Autumn, 1930—

"Influences Affecting the Value of Securities." By Mr. Hartley Withers, formerly Editor of *The Economist*.

"The Liabilities and Duties of Auditors." By Mr. W. H. Grainger, Incorporated Accountant, Chief Accountant, Prudential Assurance Company, Limited.

"The Stock Exchange." By Mr. Philip Vos, M.A., Barrister-at-Law.

"The Conduct of Investigations." By Mr. L. H. Graves, Incorporated Accountant.

"Some Practical Points on Executorship Law and Accounts." By Mr. H. A. R. J. Wilson, F.C.A., Incorporated Accountant.

"TRANSACTIONS."

The 34th volume of "Transactions" for the year 1929-30 has been published, and distributed among the members. The Committee considered that the volumes would be improved by their covering the Autumn session of one year and the Spring session of the succeeding year, instead of one calendar year as hitherto. This volume, therefore, contains the lectures of the Spring and Autumn sessions, 1929, and also those of the Spring Session, 1930.

EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

The following Students were successful at the Parent Society's Examinations during the year 1930:

MAY.—*Final:* Mr. L. E. Passingham, First Certificate of Merit and Prize; Mr. F. Holland, Third Certificate of Merit; and 44 passed the examination. *Intermediate:* Mr. J. R. Paramour, First Place Certificate and First Prize; Mr. H. Hayhow, Third Place Certificate; Mr. J. C. Russell, Fourth Place Certificate; Mr. C. E. B. Somerville, Sixth Place Certificate; Miss G. L. Cowtan, Seventh Place Certificate; and 71 passed the examination.

NOVEMBER.—*Final:* Mr. N. Dandeker, B.Sc., First Certificate of Merit; and 53 passed the examination. *Intermediate:* Mr. H. A. Manning, First Place Certificate and First Prize; Mr. H. M. Jackson, Fifth Place Certificate; and 61 passed the examination.

OFFICERS AND COMMITTEE.

Under Rules 3 and 5, the Officers and Members of the Committee and under Rule 10 the Honorary Auditor retire from office. The Members of the Committee (with the exception of Mr. Walter Holman, F.S.A.A.), the Honorary Treasurer, and the Honorary Auditor, being eligible, offer themselves for re-election.

The accounts, duly audited, are annexed to this report.

Dr. REVENUE ACCOUNT FOR THE YEAR ENDED DECEMBER 31ST, 1930. Cr.

	£ s. d.		£ s. d.
To Printing	59 3 6	By Annual Subscriptions	481 7 0
„ Stationery, Postages, &c.	65 14 4	„ Entrance Fees	95 15 0
„ Entertaining Expenses	92 11 0	„ Dividends (*less* tax)	23 19 9
„ Reporting Charges	44 17 8	„ Grant from Society of Incorporated Accountants and Auditors	105 0 0
„ Hire of Hall for Lectures	25 0 0	„ Sundry Sales	2 14 4
„ Publication of "Transactions" ..	217 8 1		
„ Secretary's Honorarium	52 10 0		
„ Clerical Assistance	12 12 0		
„ Balance, being surplus of Income over Expenditure for the year	138 19 6		
	£708 16 1		£708 16 1

BALANCE SHEET, DECEMBER 31ST, 1930.

		£ s. d.			£ s. d.
To Subscriptions paid in advance		17 14 0	By Cash at Bank		364 1 3
„ Revenue Account:—			„ Investments (at cost):—		
Balance at Dec. 31st, 1929	£828 14 0		£388 4s. 5d. 5 per cent. War Stock 1929-47 ..	£366 13 4	
Add Balance as above	138 19 6		£250 5 per cent. Conversion Stock 1944-64	254 12 11	
		967 13 6			621 6 3
		£985 7 6			£985 7 6

A. R. KING FARLOW, *Hon. Treasurer.*

I have examined the foregoing Accounts for the year ending December 31st, 1930, together with the Books and Vouchers of the Society, and find the same to be correct. I have also verified the Investments and the Cash at Bank.

W. H. PAYNE, *Incorporated Accountant, Hon. Auditor.*

LONDON, *February 11th*, 1931.

The Finance Act, 1930, as affecting Income Tax and Estate Duty.

A LECTURE delivered before the Newport Students' Section of the South Wales and Monmouthshire Society of Incorporated Accountants by

MR. H. F. HALLAM, A.S.A.A.

Mr. HALLAM said: When your Committee requested me to give a paper this evening, I felt somewhat at a loss for a subject. It appeared to me that, owing to the proximity of the Examinations of the Society, it was essential that I should deal with a subject which might prove of some benefit to both Intermediate and Final candidates, and at the same time be of interest to those fortunate individuals who were not sitting. After some consideration, I chose the Finance Act, 1930, and I can only hope that you will derive a small portion of the benefit which I have derived from being forced, as a consequenec, to interpret its several intricate sections.

The Act contains 33 sections affecting income tax, surtax and estate duty, many of which are, perhaps, of little interest so far as accountants are concerned. Consequently, I shall omit all reference to the less important sections and be at liberty to deal at greater length with the more important ones. The outstanding feature of the Act is that it increases taxation both of income and in the form of death duties, at a time when the industry of the country is suffering from a most severe depression. The increase must inevitably reduce the capital available for industry and the spending power of the people, while its effect upon the morale of the country must be considerable. Undoubtedly the burden of taxation which has previously existed has led to considerable avoidance of taxation by legal and illegal means and is accountable to a large extent for the wave of speculation, having as its object the realisation of a capital profit, which has been apparent in this country for some years.

I will now deal with the legal aspect of the Finance Act and propose to do so under two main headings, namely, Income Tax (which includes surtax) and Estate Duty.

(*a*) INCOME TAX.

The first section of the Act affecting Income Tax is sect. 8, and this, as usual, fixes the standard rate of Income Tax chargeable in the year. This is fixed for 1930-31 at 4s. 6d. in the £, and the surtax rates for 1929-30 are amended and increased by sect. 9. The distinctions which may have been noted in the years of assessment concerned are, of course, due to the fact that the income tax rate for 1930-31 operates with the payments to be made on January 1st and July 1st, 1931, and that surtax for 1929-30 is also payable on January 1, 1931.

SECT. 10.—REDUCED RATE RELIEF.

It will be remembered that, according to the statute, the income tax liability of an individual is to be computed in terms of tax at the full standard rate, and that a relief is given, termed "Reduced Rate Relief," from the liability shown after deduction of tax on allowances. Formerly, there was granted a sum of £22 10s. (that is, £225 at one-half the standard rate of 4s.), or one-half the tax shown as payable whichever were the less. This is now altered to £31 5s. (that is, £250 at five-ninths of the standard rate), or five-ninths of the tax payable, whichever be the less. This method of computation is not, however, usually followed in practice, and the effect of the section is that the first £250 of taxable income is to be taxed at 2s. in the £, instead of the first £225 at one-half the standard rate.

SECT. 11.—LIFE ASSURANCE PREMIUMS.

This section effects an amendment regarding the relief granted in respect of life assurance premiums. It enacts that where relief was previously claimable at one-half the standard rate (that is, in the case of all policies taken out after June 22, 1916, or in the case of policies taken out prior to that date where the total income of the individual did not exceed £1,000), relief is now given at only four-ninths of the standard rate, that is, 2s. in the £:—

(1) Where the taxable income of a claimant does not exceed £250; or

(2) On any excess of premiums over the amount by which taxable income exceeds £250.

The effect of the latter provision is that where, for example, an individual has a taxable income of, say, £300, and pays life assurance premiums of £125, he will be granted relief on £75 at 2s. on the amount of the excess of the premiums over the difference between his taxable income of £300 and the sum of £250 stipulated, and the balance of £50 at 2s. 3d. in the £, which is half the standard rate, as previously.

SECT. 12.—DEDUCTION OF TAX.

It might be expected that where a change takes place in the standard rate of tax chargeable in any year, a considerable period must elapse between the commencement of the fiscal year (April 6th) and the passing of the Finance Act (which may be as late as August), when tax will be deducted from annual payments and dividends at the rate chargeable in the previous year, since no rate will have been fixed for the current year. This is not so, however, since the Provisional Collection of Taxes Act, 1913, enacts that the rate of tax chargeable in any year may be fixed by a resolution of the Committee of Ways and Means of the House of Commons (so long as it is a Committee of the whole House) if the resolution contains a declaration that it is in the public interest that the resolution should have statutory effect. This resolution is, of course, passed immediately after the Budget speech, wherein the rate of tax for the year is proposed, in order that the period between the commencement of the fiscal year and the fixing of the standard rate of tax for the year may be as short as possible. Nevertheless, a short period must elapse before any rate for the year is fixed (this year notice of the resolution of the Committee of Ways and Means was issued on April 15th), and during such period an incorrect amount of tax will be deducted where there is a change in the standard rate of tax.

Sect. 12 applies where tax has been deducted during this period at a rate greater or less than the standard rate afterwards fixed for the year, and provides:—

(i) Where a body corporate deducts tax from interest on any of its securities or on preference dividends at a higher rate than that actually chargeable, the over-deduction may be adjusted on the next payment (or, if no subsequent payment, recovered by the payee).

(ii) Sect. 211 (2) of the Income Tax Act, 1918, which provides that any under-deduction of tax from rents, interest, annuities, and other annual payments (owing to an increase in the rate of tax) may be adjusted on the next payment or recovered from the payee if no subsequent payment is to be made, is extended to preference dividends payable at a fixed gross rate, copyright royalties (in certain cases) and patent royalties.

(iii) As regards dividends other than preference dividends, the net amount received by the payee is deemed to have suffered deduction of tax at the true standard rate for the year, whether this be more or less than the rate at which deduction was made. Thus, if a gross dividend of £100 is received subject to deduction of tax at 4s. in the £ (that is, only £80 is actually received), this sum of £80 is to be grossed at 4s. 6d. in the £ and is treated as £103 4s. 6d. (gross), less tax at 4s. 6d. in the £, leaving the net dividend at £80.

SECT. 13.—INTEREST ON LOANS USED FOR PAYMENT OF PREMIUMS.

It will be remembered that no allowance is granted in respect of life assurance premiums when assessing liability to surtax and attempts have been made to avoid this prohibition by the borrowing of money with which to pay premiums, the interest on the borrowed money being a legitimate deduction for surtax purposes. Sect. 13 attempts to check this practice and provides that interest on any money borrowed directly or indirectly for the payment of any life assurance premium shall be disallowable except in certain cases. The main exceptions apply where the rate of interest does not exceed 10 per cent., but an extended description of these appears unnecessary.

SECT. 14.—THE TRADING YEAR FOR ASSESSMENT PURPOSES.

This section, which amends sect. 34 of the Finance Act, 1926, has obviously been inserted in order to correct the situation which arose as a result of the decision in *Dunham* v. *Hoscote (Malaya) Rubber Estates, Ltd.* This company commenced business on July 6th, 1925, and the first three accounting periods ended on June 30th, 1926, 1927 and 1928, respectively. The revenue raised an assessment for the year 1927-28 under the provisions of sect. 34 of the Finance Act, 1926, on the profits for the twelve months ended July 5th, 1926, but the company successfully appealed against this assessment on the grounds that the Revenue were empowered under this section to make a ruling with regard to the accounting period to be used where the particular trading period covers more or less than a year, only where "it has been customary to make up accounts." It was successfully contended that there was not sufficient evidence as to "custom" in this case, and consequently the section did not apply in the case of a new business. Sect. 14 of the Finance Act, 1930, however, provides that where in the case of a business an account has been made up within the period of three years immediately preceding the year of assessment, the following method shall apply for 1930-31 and onwards :—

(1) If only one account was made up in the year preceding the year of assessment and that account was for one year, beginning either

(*a*) when the business commenced ; or

(*b*) at the end of the period on which the previous year's assessment was based,

that year is to be taken as the basis of assessment.

(2) In other cases (that is, where the accounting period, whether the first or any subsequent period, is for more or less than a year), the Commissioners of Inland Revenue are empowered to decide what period of twelve months is to be taken as the basis for assessment.

The following are examples of the operation of the section :—

(1) If a company annually makes up its accounts to, say, December 31st, the year to take for 1930-31 would be December 31st, 1929.

(2) If a company commences business on September 1st, 1929, and makes up its first account to December 31st, 1930, and its second to December 31st, 1931, it may be assessed as follows :—

1929-30—On actual profits to April 6th, 1930 ;
1930-31—On actual profits to April 6th, 1931 ;
1931-32—Either on profits to August 31st, 1930, or to December 31st, 1930 ;

subject to the company's right to be assessed on actual profits to April 6th, 1932, under sect. 15 of the Finance Act, 1930 (this I will deal with later).

(3) Where a company makes up its accounts to September 30th, but alters its accounting period to December 31st (the accounts for this period consequently being for 15 months), the Revenue may assess the company on twelve months' profits (*i.e.*, 12-15ths) and adjust the assessment for the previous year to the twelve months ended the previous December 31st.

Thus the Revenue may, under these circumstances, and those of the previous example, choose the accounting period for the years affected. In connection with this section, it may be beneficial to review the decision in *Clare & Heyworth* v. *Betts* (1926), which applied where there was a set of accounts prepared on the commencement of a business, for a period of less than one year, *e.g.*, where the accounts of a business commencing on September 1st are made up to the following December 31st. The decision in this case was that the statutory profits of the business for the year of assessment in which the business was set up and of the first complete fiscal year, should be computed from the profits shown in the first accounts, and not by adding on a proportion of the second year's profits in each case.

Thus, suppose in the example previously given, that the business was set up on September 1st, 1929, and that the accounts were made up to December 31st, 1929, and thereafter annually. Thus, the first account is for four months only, instead of for sixteen, as in the previous example. The profits of the business are assumed to be as follows :—

To December 31st,	1929	.. ..	£400
" " "	1930	.. ..	£840
" " "	1931	.. ..	£1,200

Then, following the decision in *Clare & Heyworth* v. *Betts*, the actual profits for 1929-30 are seven-fourths of £400=£700, and for the first complete fiscal year, *i.e.*, 1930-31, they are twelve-fourths of £400=£1,200, and not £400 plus nine-twelfths of £840.

This is, however, upset by sect. 14 since the Revenue may decide what period is to be taken under these circumstances, as the accounting period for assessment purposes. Consequently it would appear that they may apply the ruling or ignore it and choose some other accounting period. In practice, they would either follow the ruling or treat the profits as being : For first year of assessment, £400+$\frac{1}{4}$ of £840 ; and for the second year of assessment, £400+$\frac{3}{4}$ of £840, as representing the profits from September 1st, 1929, to August 30th, 1930. Obviously, however, the method under the ruling is more beneficial in this particular example and will be followed.

SECT. 15.—NEW BUSINESS—BASIS OF ASSESSMENT.

The Finance Act, 1926, provided that the basis of assessment for the opening years of a business should be as follows :—

First Tax Year—on the actual profit of the business from the date of inception to the following April 5th.

Second Tax Year—on the basis of the first year's accounts subject to a right to have this adjusted, on application, to the actual profits for the year of assessment.

Third and Subsequent Years—on the profits shown by the preceding year's accounts.

This is now repealed by sect. 15 as regards the second and third years of assessment, and entitles a taxpayer on giving written notice to the Inspector of Taxes within two years after the end of the second year of assessment, to require that tax for both the second and third years of the business be charged on the actual profits of each such year respectively.

The application must cover both years, but may be revoked entirely by giving notice within twelve months after the end of the third year of assessment, when the assessments for the second and third years will be dealt with as though the previous notice had never been given (*i.e.*, on the preceding year's profits as though there were no new business).

There is, however, a proviso that in the case of businesses set up in 1928-29, a taxpayer may, on giving notice, require that the provisions of the Finance Act, 1926, apply.

Let me now take a simple example illustrating the operation of this section. Suppose the profits of a business commenced on July 1st, 1929, to be as follows :—

For the year ended June 30th,	1930	£600
" " " "	1931	£800
" " " "	1932	£1,000

Then normally assessments will be made as follows :—

For 1929-30 (that is the first year of assessment) on the actual profits of the year of assessment, *i.e.*, nine-twelfths of £600 ..	£450
For 1930-31 (that is, the second year of assessment), on the profits of the first year	£600
For 1931-32 (the third year of assessment) on the profits of the preceding year, that is, to June 30th, 1930	£600 again
And for 1932-33, on the profits of the year preceding the year of assessment, that is, to June 30th, 1931	£800

But under sect. 15 the taxpayer may give notice at any time within the two years after the second year of assessment, that is, at any time before April 6th, 1933, to be assessed on the actual profits of the second and third years of assessment. The first year's assessment (for 1929-30) would remain unaltered, but the assessments for the following years, 1930-31 and 1931-32, would have to be amended as follows :—

1930-31 to the actual profits of the year of assessment, *i.e.* from April 6th, 1930—April 5th, 1931, and would be as follows :—

Three-twelfths of £600 (that is, from April to June) plus nine-twelfths of £800 (that is, from July to April)	£750
1931-32 (again on the actual) would be three-twelfths of £800, plus nine-twelfths of £1,000	£950

Thus, the assessments for these two years would be increased if the taxpayer exercised his option. He may, however, have gambled upon the profits for the third year being lower than previously, and he is given the right of withdrawing his application within one year after the end of the third year of assessment, that is, by April 5th, 1933, which corresponds with the latest date for making the application for treatment on the " actual profits " basis. Where he withdraws his application, the assessments revert to the original assessments of £600 and £600.

SECT. 16.—ALTERATION IN PERSONNEL OF A PARTNERSHIP.

Where a change takes place in the constitution of a partnership, but continuity of ownership is retained, the period in which the previous and existing partners may give notice requiring the business to be treated as discontinued and a new one set up at the date of change is extended to twelve months after the change. This extension will be welcomed by all who are aware of the delay which takes place where the signatures of predecessors are required.

MISCELLANEOUS PROVISIONS.

The foregoing are the more important provisions of the Act affecting income tax, and I now propose to touch lightly upon a number of the miscellaneous provisions.

Sect. 32 of the Finance Act, 1921, grants relief in respect of contributions to, and the income of, a superannuation fund which has for its sole purpose the provision of annuities to employees upon retirement or incapacitation.

Sect. 19 of the current Finance Act extends the relief to appropriate funds which also provide annuities for the widows, orphans or dependents of such employees.

Relief in respect of unoccupied apartments or tenements is provided by sect. 21, which permits of " void " claims being made. Where the tenements are assessed separately, the amount of any claim to be made is clear, but where they are assessed as one entire house (which is normally the case) the relief is to be such as the Commissioners of Inland Revenue consider just, but no machinery for appeal is provided.

Sect. 22 amends the law regarding the separate assessment of husband and wife, providing that an application by either the husband or wife for separate assessment is operative until revoked. Formerly, the application had to be renewed by July 6th in each year.

Sect. 23 is intended to provide the Revenue authorities with further information regarding the investments of taxpayers and empowers the Special Commissioners to require any body corporate to deliver a certified copy of the whole or any part of the register containing the names of the holders of the whole or any part of its securities. Thus, very wide powers are given and a penalty is fixed for default. The effects of this section are likely to be far-reaching, and one wonders whether a number of back duty cases will result, either directly or indirectly, from its operation.

Sect. 26 limits the amount of surtax payable as from 1929-30, in respect of the year of assessment in which a person dies, to that which would have been payable had tax been chargeable for that year at the same rates as in the previous year. Thus, although the rates of surtax for 1930-31 will not be known until the Finance Act, 1931, is passed, the executors of a person who died on, say, August 10th, 1930, may settle the income tax and surtax liability of the estate according to the rates fixed in the Finance Act, 1930.

Sects. 27-32 refer to the coming Schedule A revaluation, a matter which causes professional accountants a large amount of unremunerative work.

Doubtless you will have seen a number of these forms floating around the office. The main points of interest raised in these sections are that a definite quinquennial valuation is provided for (sect. 27) and that the Valuation List for rating purposes no longer fixes the Schedule A values of properties within the County of London (sect. 31).

(*b*) ESTATE DUTY.

Consideration having been given to the main provisions of the Act affecting income tax, we now turn our attention to its estate duty provisions. These, in the main, refer to the liability of companies which are formed primarily for the avoidance of death duties, and while none can be called models of simplicity, contain one choice section (sect. 34) which runs into five pages and has 39 numbered or lettered sub-sections, sub-divisions and provisos.

The first section to be referred to is sect. 33, which amends and, needless to say, increases, the rates of estate duty. The amended rates operate as from August 1st, 1930 (on which date the Act received the Royal Assent), but as is usually provided, do not apply as regards the purchaser or mortgagee of an interest in expectancy (*e.g.*, a reversionary interest), which has been *bona fide* sold or mortgaged before April 14th, 1930.

SECT. 34.—ESTATE DUTY WHERE PROPERTY HAS BEEN TRANSFERRED TO A COMPANY.

Considerable avoidance of estate duty has taken place in the past where an individual transfers his property to a company in such a way that, while retaining full control of the property during his lifetime, its value "passing on his death" is negligible. This can be effected in numerous ways; for example, by the formation of a company in which the main shareholders, for a nominal consideration, are the persons who would normally be legatees, and in which the deceased retains a controlling interest by appointment under the Articles, as, say, permanent managing director with sole powers of management and a salary which corresponds with the income from the property. Sect. 34 seeks to prevent avoidance of estate duty by this means, providing a method of calculating the value of the interest held by deceased and treating this interest as passing on his death.

NATURE OF TRANSFER.

The section applies to any transfer made after July 3rd, 1918 (thus, it is made retrospective), whether for consideration or not, of property which had it remained in the ownership of the deceased would have been liable to estate duty on death. Certain exceptions are made, *e.g.*, in the case of *bona fide* sales for shares or debentures (since in this case the interest of deceased would be calculated in the usual way on the value of his holding), transfers which are not concerned with the management of land and transfers of property which is still deemed to pass on his death.

The interest of the deceased is calculated by reference to the value of the benefits received by him, such benefits including any interest in land, *e.g.*, the occupation of a house and lands rent free, and any payments made to deceased other than dividends, interest, royalties and payments on account of purchase money. The reason for these exceptions obviously is that they denote the retention by deceased of an interest in the property of such a nature that it passes on death.

METHOD OF COMPUTING INTEREST OF DECEASED.

The proportion which the total value of the benefits received during the preceding three years (or during the existence of the company if formed for a lesser period) bears to the total income, as defined, of the company for each such period is ascertained and averaged. If this average exceeds 50 per cent., there is deemed to pass on death such sum as the average benefit so ascertained bears to the total value of the assets of the company. Thus:—

First Step.

Divide $\frac{\text{Total Benefit}}{\text{Total Income}}$ for each accounting year and average the proportions so obtained.

Second Step.

If the average proportion is over 50 per cent., the value of property passing is deemed to be:—

Average Proportion of Benefit × Value of Assets.

The definition, referred to above, of the total income of the company is important, and is as follows:—

> "The total income of the company is computed as for income tax, but is made by reference to the actual income for the accounting year concerned, and not on the basis of the previous year's profits, subject as follows:—
>
> (*a*) No deduction may be made for any benefit received by deceased other than preference dividends and interest. Thus his salary as, say, managing director, cannot be deducted.
>
> (*b*) Deductions may be made for:—
>
> (i) Income tax borne by the company.
>
> (ii) Interest paid by the company.
>
> (iii) Preference dividends.
>
> (iv) Rents, royalties and other payments on which tax is deducted at source,
>
> none of which are chargeable for tax purposes."

The foregoing probably sounds very confusing, but I can assure you without losing any modesty that it is much clearer than the original section. Possibly, however, an illustration will clear up the matter for you. Thus, suppose that the total assets of a company to which the section refers are valued at £150,000, that the owner receives the specified benefits to the sum of £7,500, £7,000 and £8,000 in the three years preceding his death and that the total income of the company during these years is computed at £10,000 each year. Then the proportion of benefits to total income in each case is 75 per cent., 70 per cent. and 80 per cent., and the average proportion is 75 per cent. Since this is greater than 50 per cent., the value of the interest of deceased is then computed at 75 per cent. of £150,000, *i.e.*, £112,500. Thus the actual principles of valuation are comparatively simple. What will cause the trouble in practice (and as regards "swotting") is whether the benefit received, or the transfer, or the company is such as is specified in the section and as regards the valuation of the benefits and similar matters.

One further point remains regarding this section, namely, that the interest so ascertained is not to be aggregated with the other property of the deceased, but is to rank as a separate estate. Thus, the remainder of the estate and the interest so valued will each be chargeable at a relatively low rate, and much of the purpose of the section appears to have been destroyed.

SECT. 35.—ESTATE DUTY WHERE LIFE INTEREST IS TRANSFERRED TO A COMPANY.

You will have learned in your executorship law studies that the value of a life interest ceasing on death is liable to estate duty as a "cesser of interest." Sect. 35 is intended to prevent transfers to a company by the life

tenant and remainderman of such a nature that this "cesser of interest" would not arise on the death of the life tenant. For example, A., a life tenant, and B., the remainderman, of an estate transfer the property to a company (the nature of this company I will refer to later when dealing with sect. 38), the consideration for the transfer being a yearly payment by the company to A., such payment not being a charge on the assets. Prior to the Finance Act, 1930, estate duty would have been avoided in respect of this property on A.'s death, but sect. 35 provides that such property is deemed to pass on his death. Where, however, any part of the property has been *bona fide* sold by the company, the proceeds of sale and not the actual property are deemed to have passed on death.

The rules regarding the valuation of any property so deemed to pass on death are important, the following deductions being allowed from the total value thereof, namely :—

(1) Sums borrowed for the improvement of the company and not yet repaid.

(2) The money paid and the capital value of any shares or debentures issued to deceased as consideration for the transfer. Thus, deductions are permitted so far as improvements are intended and as regards the extent of the interest retained by deceased.

The operation of the section is made retrospective to August 1st, 1918, and certain transfers, for example, where the deceased relinquished all interest more than three years before death, are excluded. As in the case of the previous section, the property so valued is to be treated as a separate estate and is not subject to aggregation.

Normally, the executors or administrators of a deceased person are accountable for the payment of estate duty. But sect. 36 provides that any duty payable by reason of the two preceding sections is payable by the company and the Commissioners of Inland Revenue are given powers of recovery against the company. This provision appears to be necessary, since in both cases the deceased may have given up all interest in the property and have no assets out of which to pay the duty.

SECT. 37.—VALUATION OF SHARES IN CERTAIN COMPANIES.

Previous to the passing of this Act the valuation of unquoted shares in companies was to be fixed at a price which, in the opinion of the Commissioners of Inland Revenue, such property would realise if sold in an open market at the date of death (sect. 7 (5) of the Finance Act, 1894), and no deduction was allowable on the grounds that the whole property would be placed upon the market at the same time (sect. 60 (2), Finance Act, 1910.) Any depreciation in value, however, which was anticipated by reason of the death of the deceased was, by the same section, allowed to be taken into account.

Sect. 37 of the current Finance Act provides a new method for the valuation of shares in the class of company to which the Act refers (this is defined in sect. 38, which applies to all the estate duty provisions of the Act) and s a company to which either the provisions of sects. 34 or 35 apply, or is under the control of the deceased. It requires the valuation to be made by reference to the otal assets of the company (*i.e.*, on the assets basis) unless the shares are subject to Stock Exchange dealings. Where, however, a sum of money is deemed to pass on death under sects. 34 or 35, this sum may, for valuation purposes, be deducted from the value of the total assets of the company. A definition is given as to what constitutes control by the deceased.

Sect. 38, which is an interpretation section, is particularly important regarding the definition of two terms, namely, those of—

(1) "A company" to which all the estate duty provisions refer, and

(2) "The value of the total assets of the company" as required for the valuation of interests under sects. 34, 35 and 37.

The former is defined as "any body corporate which either :—

(1) Is so constituted as not to be controlled by its shareholders or any class thereof; or

(2) does not issue to the public more than one-half of the shares which give a controlling interest in the company."

The latter (that is, "value of total assets") consists of the principal value of the assets, including goodwill, if sold as a going concern, after deducting therefrom :—

(1) Any debentures, debenture stock or preference shares at par value or redemption value whichever be the greater ;

(2) All *bona fide* debts owing by the company ;

(3) The computed amount of the company's future or contingent liabilities ;

(4) The amount of any separately invested pensions or superannuation fund.

These deductions are really a matter for memorising, for examination room purposes, but, in effect, it will be noted that what are virtually the "net assets" of the company are taken.

The final section to which I wish to refer is sect. 39. Up to the passing of this Act, it was considered that no estate duty liability arose where a person surrendered his annuity to the person ultimately entitled to the property on which the annuity was charged, even though the latter substituted some annual payment in the nature of an annuity as consideration for the surrender. Sect. 39, however, provides that such property shall still be deemed to pass unless the surrender was made more than three years before the death of the deceased and during such period he was not in receipt of any annual payment from the person to whom he surrendered the annuity.

That, gentlemen, concludes my paper. I have done my best to make a dry subject a little more interesting and to make the provisions of the Act a little clearer than might otherwise have been the case by giving examples in appropriate cases. There must, however, be many points upon which you still feel in doubt, and I will do my best to answer any questions you may put to me. There is, however, one fact of which I should like to remind you—I am not a lawyer and Finance Acts (which are pernicious examples of legislation by reference) have an evil reputation as regards interpretation.

Incorporated Accountants' Benevolent Fund.

The President and Trustees gratefully acknowledge the following special donations and life subscriptions received since January 23rd last :—Mr. E. T. Brown, £5 5s. and £1 1s. ; Mr. A. Cleveland, £5 5s. ; Mr. W. J. Jackson, £5 5s. ; Mr. R. P. Phillips (Penang), £5 ; Mr. E. C. Pulbrook (Salisbury, Rhodesia), £5 5s. ; Messrs. Stone, Porter & Stone, £3 3s. ; Messrs. Woodington, Bubb & Co., £2 2s.

Ordinary subscriptions received during February amount to over £200.

Changes and Removals.

Mr. T. R. Ainscough, Incorporated Accountant, has entered into a partnership agreement for the Argentine Republic with Messrs. McAuliffe, Davis, Bell & Co. He is acting as resident partner of the firm at Balcare 252, Buenos Aires.

Messrs. Walter Baird & Co., Incorporated Accountants, announce a change of address to District Bank Chambers, 1, Frodsham Street, Chester.

Mr. J. W. Bartrop, Incorporated Accountant, has been admitted a partner in the firm of Messrs. Peat, Marwick, Mitchell & Co. at their Detroit office. Mr. Bartrop is a Certified Public Accountant in the States of Michigan and Wisconsin, and also a member of the American Institute of Accountants.

Mr. J. A. Cooke, Incorporated Accountant, has been admitted a partner in Messrs. Peat, Marwick, Mitchell and Co. at their Chicago office. Mr. Cooke is a Certified Public Accountant of Massachusetts, a Public Accountant of Illinois, and a member of the American Institute of Accountants.

Messrs. Edward Blinkhorn, Lyon & Co., Incorporated Accountants, 69, Leadenhall Street, London, E.C.3, have admitted into partnership Mr. S. J. Chubb, A.S.A.A. The style of the firm will remain as before.

Mr. Ernest Carter, Incorporated Accountant, has removed his offices to County Chambers, King Street, Wakefield.

Messrs. Cornelius & Davar, Incorporated Accountants, 80, Esplanade Road, Bombay, announce that Mr. J. C. Kumarappa, F.S.A.A., has retired from practice and the partnership has been dissolved by mutual consent. The practice will be continued by Mr. D. R. Davar, F.S.A.A., the remaining partner.

Messrs. Damania, Panday & Bajan, Bombay and Calcutta, announce that they have admitted as partner at the Calcutta Branch Mr. K. E. Baria, Incorporated Accountant.

The partnership between Mr. Arthur Hallett, Incorporated Accountant, and Mr. G. O. Harrison, Incorporated Accountant, under the firm name of Arthur Hallett, Harrison & Co., has been dissolved by mutual consent as from January 31st. The practice will be continued at Wrexham and Ellesmere by Mr. Arthur Hallett under the style of Arthur Hallett & Co., and at Shrewsbury by Mr. G. O. Harrison under the style of G. O. Harrison & Co.

Mr. John Hillier, Incorporated Accountant, has commenced public practice at 59, Brook Street, Luton.

Mr. F. M. Hutchinson, Incorporated Accountant, has removed his offices to 10, Riby Square, Grimsby.

Messrs. Kevans & Son have removed their offices to 1 and 2, Westmoreland Street, Dublin.

Mr. H. J. Notcutt, Incorporated Accountant, has entered into partnership with Mr. A. F. Fisher. They will practise as Notcutt & Fisher, at Murray House, Burg and Hout Streets, Cape Town.

Mr. H. R. Van der Poel, Incorporated Accountant, has been admitted into partnership by Messrs. Pierre F. Theron & Co., 141, Longmarket Street, Cape Town.

Messrs. Sastri & Co., Incorporated Accountants, 3, Thumbu Chetty Street, Madras, have taken into partnership Mr. R. B. Shah, B.Com., Incorporated Accountant. The name of the firm has been changed to Sastri & Shah.

BUDGETARY CONTROL OF EXPENSES.

A meeting of the Business Research and Management Association of Great Britain was held at Anderton's Hotel, Fleet Street, London, E.C.4, on February 24th, when Sir Henry Bunbury, K.C.B., Comptroller and Accountant-General to the General Post Office, read a paper on the "Budgetary Control of Expenses." The chair was taken by Mr. A. G. H. Dent, Chairman of the Association. Among the objects of the Business Research and Management Association is the encouragement of Research Methods in Industry and Commerce, and the development of the Science of Management. It was from this point of view that Sir Henry Bunbury prepared his paper.

Sir Henry defined Budgetary Control as "effectively planned production." He believed that procedure in production should be (1) to consider and make a plan, and (2) for activities to conform to that plan, adjusted if need be to circumstances not foreseen when the plan was made. Budgetary Control comprised both the plan and its effective application. Reference was made to the fact that in Government and Municipal work the whole of the operations of a Department or Local Authority were planned ahead, but with limitations in regard to time and within the scope of public policy. Sir Henry went on to say that any budgetary system must conform to the accounting system. This might seem an obvious factor, but it took quite a time for its fundamental importance to be realised in this country. To be effective, there should be independent scrutiny and criticism of Budget figures, and that scrutiny and criticism should be centred in someone of high managerial responsibility who has power to make that criticism effective.

Concluding his paper, Sir Henry dealt with means by which a Budget system could become effective as an instrument of control when once the Budget had been settled. Programme and performance must be compared and estimates must be checked at frequent intervals with the actual performance to date. Sir Henry called attention to the differences between the use of the Budgetary system as applied to a Government Department and to Industry. In Industry they thought in terms ultimately of cost per unit, while in Government Departments they had to consider the amount of money voted to be spent in a given period of time. At the same time Sir Henry felt that the Industrialists must also think in periods of time, and public authorities of the cost per unit. A perfect system of Budgetary control implied the full use of both these factors, and in the long run those conditions must be harmonised in the common interest of those engaged in Industry and Public Administration.

Incorporated Accountants' Examinations.

The next examinations will be held in London, Manchester, Cardiff, Leeds, Glasgow, Dublin and Belfast on the following dates:—

The Preliminary examination on		May 4th and 5th, 1931.
The Intermediate	,,	May 6th and 7th, 1931.
The Final	,,	May 5th, 6th & 7th, 1931.

Applications to sit must be made on the appropriate forms before March 31st, 1931.

Incorporated Accountants' Students' Society of London.

Syllabus of Lectures for the Spring Session :—1931.

March 4th. Lecture, "Some Post Slump Problems," by Mr. J. C. Rea Price, City Editor, *News-Chronicle* and *Star*. *Chairman :* Sir Stephen Killik (President of the Society).

March 10th. Lecture, "General Principles of Factory Costing," by Mr. Percy H. Walker, Incorporated Accountant. *Chairman:* Mr. Thomas Keens, Incorporated Accountant.

March 17th. Lecture, "Blackboard Demonstrations of Typical Problems in Trust Accounts," by Mr. H. A. R. J. Wilson, F.C.A., Incorporated Accountant. *Chairman :* Mr. H. E. Colesworthy, A.C.A., Incorporated Accountant.

March 24th. Lecture, "Mechanisation in Banks," by Mr. J. T. House (Head Office, Midland Bank Limited). *Chairman :* Mr. G. Roby Pridie (Vice-President of the Society).

March 31st. Lecture, "Money, Prices and Trade," by Mr. A. A. Garrett, M.A., B.Sc., F.C.I.S., Secretary, Society of Incorporated Accountants and Auditors. *Chairman :* Mr. A. S. Wade (City Editor of the *Evening Standard*).

All meetings will be held at Incorporated Accountants' Hall at 6.15 p.m.

COMPANY RETURNS.

In the House of Commons last month the President of the Board of Trade, in reply to a question, stated that the number of companies, other than private companies, which at the close of business on January 31st had not filed with the Registrar of Companies an annual return for the calendar year 1930 was 1,884. Letters, he said, were being sent by the Registrar to these companies, and in cases where such procedure did not secure the return the defaulting company would be reported to the Solicitor to the Board of Trade, who would take such action as might be necessary.

Correspondence.

RANKING MEMORIAL FUND.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—May I appeal, through the medium of your columns, to Incorporated Accountants who respect the memory of the late Dr. D. F. de l'Hoste Ranking to contribute towards a Memorial Fund which I am raising to provide an annuity for Mrs. Ranking.

The Doctor left a very small estate, which is wholly inadequate for the support of his widow, and having regard to the fact that Dr. Ranking did so much in the past, not only for the individual student but for the profession as a whole, I feel that there must be many Incorporated Accountants throughout the world who would wish to contribute to this Fund.

I will acknowledge individually all donations, and I should like them to be sent to my City address, 19, Fenchurch Street, E.C.3.

I beg to remain, dear Sir,
Yours faithfully,
ERNEST EVAN SPICER.

19, Fenchurch Street, London, E.C.3.

Reviews.

Taxation of Foreign Companies in England, France, Germany and U.S.A. *London: Sweet & Maxwell, Limited, 2 and 3, Chancery Lane, W.C.2.* (228 *pp. Price 7s. 6d. net.*)

This publication is divided into four parts: the first dealing with the taxation of foreign companies carrying on business in this country, the second with similar companies in France, the third with Germany, and the fourth with the United States of America. The position with regard to the United Kingdom is now fairly well known, but the book will be found exceedingly useful in regard to the taxation of foreign companies carrying on business in the countries enumerated above. The subject is dealt with at some length in each case, the portion relating to France being prepared by Mr. P. G. E. Gide, of the Paris and London (Lincoln's Inn) Bar, that relating to Germany by Dr. Friedrich Kempner, of the Berlin Bar, and that relating to the United States by Mr. Ernest Angell, of the New York Bar. The information given should accordingly be reliable.

Share Transfer Audits. *By Reginald Davies, A.C.I.S. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (88 *pp. Price 3s. 6d. net.*)

It would be difficult to imagine anything in relation to an audit of transfers that is not dealt with in this little book. The information given is brief but clear and precise. Amongst the special points included are share warrants, debentures, redeemable preference shares and shares issued at a discount. In the appendix there is given a number of specimen forms, and the book is well indexed.

Dictionary of Income Tax and Sur Tax Practice. *8th Edition. By W. E. Snelling. London : Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (704 *pp. Price 25s. net.*)

In this book Mr. Snelling gives a very complete summary of Income Tax law and, as the title indicates, the book is arranged in dictionary form. The information is conveyed in plain language with references to statutes and decided cases. Mr. Snelling's experience in Income Tax matters is sufficient assurance of reliability. This is an excellent book.

Dawson's Accountants' Compendium. (*In two volumes.*) *5th Edition revised by A. L. Morell, A.C.A., and W. B. Cullen, F.C.A. London : Gee & Co. (Publishers), Limited, 8, Kirby Street, E.C.1.* (784 *pp. Price £2 11s. net.*)

The compilation of this compendium is in the form of an encyclopædia extending to all matters coming within the scope of an accountant's duties. Some of the more important items are treated at considerable length, while those of less importance have only a short space allotted to them. The publication has been well known for many years, but has been largely out of date owing to new legislation. The present edition remedies this and embodies the provisions of the Trustee Act, 1925, and other statutes passed at the same time dealing with the law of property. It also includes the provisions of the Companies Act, 1929, and there is an appendix on Scottish Law by Mr. A. G. McBain, C.A., which will be found useful.

Rates and Rating. *6th Edition. By Albert Crew, Barrister-at-Law, and W. T. Creswell. London : Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (496 *pp. Price 12s. 6d. net.*)

This is a comprehensive treatise on the subject of Rating and embodies the Rating and Valuation (Apportionment) Act, 1928, and the Local Government Act, 1929, together with a summary of the Railways (Valuation for Rating) Act, 1930, and resolutions adopted by the London Assessment Conference of 1929. The book deals

with the making and levying of rates, the rating of special classes of property, appeals against rates, rateable occupation and rateable value. Mr. Crew is something of a specialist on this subject and has spared no pains to make his book complete. It is supplemented by a very full index.

French-English and English-French Dictionary of Commercial and Financial Terms, Phrases and Practice. *By J. O. Kettridge, F.S.A.A., F.C.I.S. London: George Routledge & Sons, Limited, Broadway House, 68-74, Carter Lane, E.C.4.* (647 *pp. Price* 25*s. net.*)

This volume is in part an enlargement of the same author's Dictionary of Financial and Business Terms, Phrases and Practice (see *Incorporated Accountants' Journal*, November, 1928). But it is more than this, for the scope of the work has been extended to cover a large number of subjects hardly touched upon in the earlier Dictionary, *e.g.*, Income Tax, Mercantile Business, Transport and Customs, while tables of weights and measures have been added at the end. A feature of Mr. Kettridge's work is the large number of translated sentences which he inserts to amplify his definitions and to illustrate the manner in which a word or phrase is used. Very few of the fifty thousand entries have not at least one such illustration. Differences in current practice in such matters as the quotation of partly paid shares, or the combination into one set of "statuts" of the powers and regulations of a company, which in England are divided into "Memorandum" and "Articles," are dealt with in ample explanatory notes, which are given in English in both parts of the Dictionary. The matter is well arranged and clearly set out.

Twixt Lombard Street and Cornhill. *Designed, written and illustrated by the Staff of Lloyds Bank Limited. Produced and printed by Sir Joseph Causton & Sons, Limited, London.*

Lloyds Bank Limited have issued a superbly illustrated souvenir in order to mark the occasion of the opening of the new building in Lombard Street and Cornhill which has been erected for the head and City offices of the Bank. In its pages a brief description of the new premises will be found, together with a short history of the site between the two famous thoroughfares upon which they now stand, and some account of the many people of divers races who, during the centuries since London first was founded, built, dwelt and laboured on the same spot, and by their continuity of business instincts helped to make it and its neighbourhood the hub of the financial world. On the site in the days when the Romans ruled, lying between the street of the Langbourne and that now known as Cornhill was a large villa which was the house of the Curator or Accountant-Treasurer of the City. On the wall near the entrance was a plaque of terra-cotta which bore a "horse rampant" somewhat resembling that upon the Bank premises to-day. This plaque was, perhaps, the Curator's signboard, and possibly the Accountant-Treasurer, having the funds of the City at his disposal, carried on the business of an *argentarius* or banker. The Roman of that day knew what he was about. He had evolved a system of book-keeping and was prepared to negotiate Bills and deal in Exchanges besides keeping the accounts and cashing a species of cheque—*attributio*—for his merchant neighbours in the City. His ledgers were of parchment or vellum, though sometimes of a kind of tissue made from papyrus. They were either bound together in books fastened with ribbon or rolled and kept in little barrels with tabs sticking up to denote the various sections and accounts. To those who love London and its history the illustrated souvenir is of absorbing interest, and we regretfully leave its pages until a further opportunity presents itself for tracing out the history of the site down to the present day, with its majestic building having façades on Cornhill and Lombard Street, making striking additions to the architecture of these thoroughfares.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Scottish Council.

A meeting of the Council of the Scottish Branch of the Society was held in Glasgow on January 30th. There were present Dr. John Bell (in the chair), Mr. R. T. Dunlop, Mr. P. G. S. Ritchie, Mr. W. Davidson Hall, Glasgow; Mr. Walter MacGregor, Edinburgh; Mr. E. Mortimer Brodie, Port Glasgow; Mr. D. M. Muir, Dunfermline; and Mr. James Paterson, Secretary. Apologies for absence were intimated from Mr. D. Hill Jack, J.P., Mr. J. Stewart Seggie, Mr. W. L. Pattullo, and Mr. Wm. Houston. Reports were made as to the work of the Society in Scotland, membership matters, Students' Societies and other matters affecting the profession in Scotland. A further payment was intimated from Mr. W. Davidson Hall towards the Prize Fund, for which he was cordially thanked.

A Shock to Glasgow.

Not since the failure of the City of Glasgow Bank in 1878 have commercial circles in Glasgow experienced such a shock as happened by the news on the 16th ult. that thirteen well-known men, including two Chartered Accountants, had been arrested in connection with Scottish Amalgamated Silks, Limited. The charge against all those arrested is that, being promoters of Scottish Amalgamated Silks, Limited, and of the Glasgow Financial Trust, Limited, and all acting in concert, they formed a fraudulent scheme to obtain money from the members of the public by false representations and pretences in relation to assets in which they or some of them had substantial interests, and which it was proposed to induce the public to take over at inflated values, and by means of flotations of companies and by publishing advertisement in the Press, issued to the public a prospectus and invited from the public subscriptions. Several of the accused have been released on bail.

Industry in Scotland.

At a recent meeting of the Edinburgh City Business Club Mr. J. M. Cramond, Controller (Scotland), Ministry of Labour, discussed "The Industrial Situation in Scotland." Mr. Cramond said they had at the moment 307,000 unemployed people in Scotland. It was an unfortunate thing for them in Scotland that industry was moving to the South. There had been a decrease in quite a number of industries. In the coal-mining industry a great change was taking place. Machinery was taking the place of man-power. The shipbuilding industry was also in an unfortunate condition, and they had something like 47 per cent. of unemployment to-day in that industry. Some of their industries were going away and were not being replaced by anything else. On the previous day there had been an enthusiastic and representative meeting in Edinburgh to form a Scottish Travel Association. He wished they could get as enthusiastic a meeting to form a Scottish Industries Association, just to watch the position and see what could be done. Mr. Cramond deprecated the spreading of stories and rumours about unemployment insurance frauds, and in conclusion appealed to employers to help in the administration of the unemployment insurance scheme as much as possible.

The name of Mr. William Bentley, "Wyndcliff," Harper's Lane, Bolton, was included in the list of Public Auditors in last month's issue in error.

Mr. H. S. Watts, Incorporated Accountant, has been appointed Accountant to the Edmonton Urban District Council.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B. :—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases* (*Scotland*); S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

COMPANY LAW.

Cousins v. International Brick Company, Limited.

Validity of Proxy.

An Article of a company provided that a vote given in accordance with the terms of a proxy should be valid notwithstanding the previous death of the principal or revocation or transfer of the share in respect of which the vote was given, provided no intimation in writing of the death, revocation or transfer should have been received at the office before the meeting.

The Court of Appeal affirmed the decision of Luxmoore (J.) (see *Incorporated Accountants' Journal*, February, p. 203), and held that the object of the Article was not to preclude a shareholder who had given a valid proxy from voting in person but to protect the company from any liability to inquire whether a proxy validly used had been revoked or not, and that, in the absence of any special contract between a shareholder and the company expressly excluding the right to vote in person where a valid proxy has been given, the right of the shareholder to vote in person is paramount to the right of the proxy.

(C.A.; (1931) 47 T.L.R., 217.)

In re Hutchison & Co.

Alteration of Memorandum.

A private company presented a petition to the Court of Session for confirmation of a resolution altering its Memorandum of Association by adding thereto a clause enabling the company to invest its reserve funds in such stocks and securities as the company or its directors might think proper, on the ground that the company's existing power of investment appeared not to permit of its reserve being invested to the best advantage.

The Court granted the prayer of the petition as it held that it would enable the company to carry on its business more efficiently.

(C.S.; (1931) S.L.T., 719.)

EXECUTORSHIP LAW AND TRUSTS.

In re Vickery; Vickery v. Stephens.

Agent Employed by Executor.

By sect. 23 (1) of the Trustee Act, 1925, "Trustees or personal representatives may, instead of acting personally, employ and pay an agent, whether a solicitor, banker, stockbroker, or other person, to transact any business or do any act required to be transacted or done in the execution of the trust, or the administration of the testator's or intestate's estate, including the receipt and payment of money, and shall be entitled to be allowed and paid all charges and expenses so incurred, and shall not be responsible for the default of any such agent if employed in good faith."

It was held that where an executor, in reliance on sect. 23 (1), employs a solicitor or agent to receive money belonging to the estate, the executor is not liable for loss caused by the misconduct of the solicitor or agent unless the loss happened through the executor's wilful default, that is, either (*a*) conscious negligence or breach of duty; or (*b*) recklessness in the performance of a duty.

(Ch.; (1931) W.N., 35.)

INSOLVENCY.

In re Harris.

Notice of Bankruptcy Petition.

M., who held the office of high bailiff of a County Court, in pursuance of sect. 41 (2) of the Bankruptcy Act, 1914, retained moneys paid to him to avoid a sale of a debtor's goods. Before the expiration of the fourteen days of retention a bankruptcy petition was presented by the debtor and a receiving order thereon was signed by M., who then held the office of Registrar of the same Court of which he was also high bailiff. A formal notice in writing was sent by the Official Receiver to M. of the presentation of the petition and of the making of the receiving order, which was not received until after the fourteen days had expired.

It was held that knowledge of the presentation of the petition acquired by M. as Registrar constituted a sufficient compliance with the requirement of sect. 41 (2), of service of notice upon him as high bailiff, with the result that the Official Receiver was entitled to be paid the moneys in the hands of the high bailiff.

(Ch.; (1931) 1 Ch., 138.)

PARTNERSHIP.

McKenzie's Executrix v. Morrison's Trustees.

Evidence of Payment of Debt.

A. and B. were in partnership for some years up to 1907, when the partnership was dissolved, and as the result of an arbitration for the settlement of matters outstanding between the partners, A. paid B. £2,000. Thereafter the two were on unfriendly terms and B. was in poor circumstances. B. died in 1923 and A. in 1927. In 1928 B.'s executrix found lying among papers of no value an I.O.U. for £200, dated 1897, granted by A. in favour of B., and she brought an action against A.'s trustees for payment of that sum.

The Court of Session held that in order to establish that the debt had been discharged, it was sufficient to prove a state of facts inconsistent with its continued subsistence, and that particularly in view of the creditor's delay in asserting the claim, the defendants had discharged that onus.

(C.S.; (1930) S.C., 830.)

REVENUE.

Diggines v. Forestal Land and Timber Company.

Income Tax and Foreign Possessions.

The House of Lords allowed an appeal from an order of the Court of Appeal (see *Incorporated Accountants' Journal*, June, 1930, p. 384), and held that an assessment to income tax in respect of foreign possessions is not to be treated as though each holding of shares, &c., is a separate source of income separately assessable.

(H.L.; (1931) L.J.N., 168.)